

RRSPs - unused opportunities

Hubert Frenken

In 1994, the aggregate amount taxfilers could claim as registered retirement savings plan deductions (the total RRSP room) was \$133 billion, \$28 billion more than the year before. This accumulation results from continued non-use or limited use of RRSPs by a large segment of the tax-filing population.

Unlike employer-sponsored registered pension plans (RPPs), which, when available, are nearly always compulsory, RRSP participation is voluntary. And, while access to RPPs is limited (just 35% of the total labour force were in employment situations providing RPPs in 1993), RRSPs are open to virtually all workers. Even RPP members may top up their pension savings with RRSP contributions, with some exceptions.¹

This article provides previously unavailable information on RRSPs by tracking taxfilers' RRSP participation over a three-year period. Earlier analyses determined which persons were most likely to contribute in a specific year and how much of that year's total RRSP room was used (Frenken, 1990; Frenken and Maser, 1993). This article describes taxfilers' contribution habits in the three years: who contributed regularly, sporadically or not at all. It also explores the extent to which individuals used their RRSP room: whether they exhausted their limit, used only a portion, or left all of it unused.

New database

This study is based on data from a personal tax file covering 1991 to

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1993. (For a description of the file and definitions of terms used in this article, as well as an explanation of the current legislation governing RRSPs, see "Tax assistance for pensions and RRSPs" in this issue.) There are some data limitations, such as the lack of information on family income. The individual's decision to contribute, and the amount deposited, may depend in some measure on the combined husband/wife income. Moreover, contributions are often claimed by the spouse with the higher taxable income (most frequently the husband), but credited to the partner's RRSP. It is not possible to identify and quantify spousal contributions.² Finally, the effect of the recent recession on RRSP participation and contribution levels cannot be determined,

because legislation was changed considerably in 1991, and data for 1994 are not yet available.

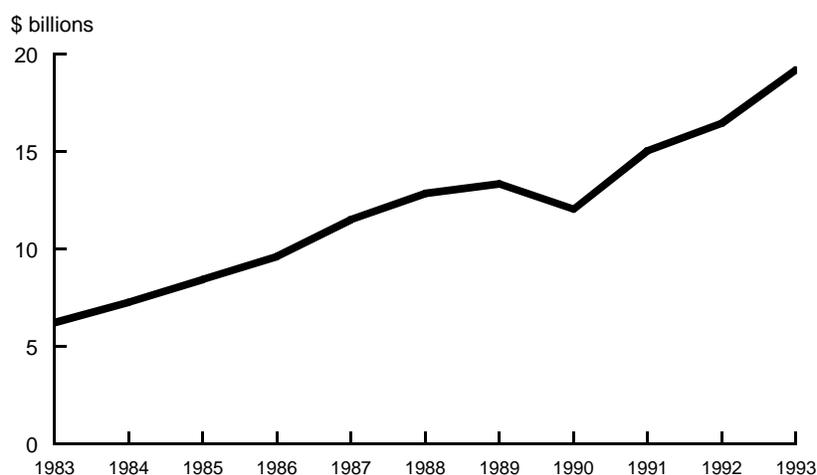
Despite these limitations, this file provides the first opportunity for detailed longitudinal analysis of RRSP participants. This study complements the article, "Who's saving for retirement?" (in this issue).

Recent contribution growth

Legislation that came into effect in 1991 not only increased RRSP contribution opportunities for many taxfilers, but also allowed unused RRSP room to be carried forward to future years.

Although the total assessed income of all taxfilers only doubled from 1983 to 1993, annual contri-

Chart A
RRSP contributions have more than tripled since 1983.



Sources: Small Area and Administrative Data Division and RRSP room file

Note: The 1990 decrease can be attributed to the recession and the removal of some contribution opportunities; subsequent dramatic growth resulted from new legislation in 1991.

butions more than tripled, from \$6.2 billion to \$19.2 billion (Chart A). However, the bulk of RRSP growth has taken place since 1990. While the total assessed income of all taxfilers increased just 11% from 1990 to 1993, RRSP contributions grew 60%.³ Part of this growth may be attributed to the growing popularity of group RRSPs. There are no data on their number or their participants.

Although some contributions are not subject to the standard deduction limits (see *Different types of contributions*), the bulk, known as “normal contributions,” are. From 1991 to 1993, four out of every five dollars contributed were charged against the available RRSP room (Table 1).

Growth in unused room even faster

Since many eligible taxfilers either do not contribute, or use up only part of their entitlement, and since unused room is carried forward to subsequent years, the total room

Different types of contributions

Annual contributions include amounts subject to the standard deduction limits (“normal” contributions) as well as rollovers of eligible income into RRSPs. The bulk of annual deposits are normal contributions, although the amounts rolled over are not insignificant: \$9.2 billion over the 1991-to-1993 period, or 18% of the total (Table 1).

Nearly all persons with rollovers also made normal contributions. Of the 6.7 million taxfilers who contributed at least once in the three years, just 3% had rollovers only. Many of these people were likely pensioners who did not have earned income and were therefore ineligible to make normal RRSP contributions.⁴ (For an explanation of the need for earned income and a description of the way RRSP room is calculated, see “Tax assistance for pensions and RRSPs” in this issue.)

Rollovers

There are two types: retiring allowances rolled over to the taxfilers’ own RRSPs and periodic pension pay-

ments rolled over to spousal RRSPs. Persons with rollovers tend to be older, because retiring allowances, which are often payments in recognition of long service, are more frequently received by older workers, and retirement pensions are generally not paid before age 55.⁵

Men were much more likely than women to roll over retiring allowances and pension income.⁶ From 1991 to 1993, men rolled over two-thirds of the \$6.9 billion in retiring allowances and 93% of the \$2.3 billion in pension payments. The latter were deposited into their spouses’ RRSPs.

Also, taxfilers with rollovers, especially those with transfers of retiring allowances, tended to be in the higher income brackets. These lump sum amounts often raise a recipient’s total income significantly, providing a greater incentive to use tax-deferral opportunities. In 1993, 57% of taxfilers with such rollovers had income in excess of \$60,000 and their deposits amounted to 80% of total retiring allowance rollovers.⁷

Table 1
RRSP contributors and contributions

	1991	1992	1993
Type of contribution			
All types			
Number of contributors ('000)	4,699	4,892	5,110
Total amount contributed (\$ billions)	15.0	16.4	19.2
Average contribution (\$)	3,200	3,360	3,750
Normal *			
Number of contributors ('000)	4,558	4,739	4,953
Total amount contributed (\$ billions)	12.3	13.5	15.5
Average contribution (\$)	2,690	2,860	3,140
Rollovers of retiring allowances **			
Number of contributors ('000)	88	95	107
Total amount contributed (\$ billions)	2.0	2.1	2.8
Average contribution (\$)	23,110	22,420	26,110
Rollovers of pension payments †			
Number of contributors ('000)	148	160	167
Total amount contributed (\$ billions)	0.7	0.8	0.8
Average contribution (\$)	4,880	4,890	5,080

Source: RRSP room file

* Subject to the standard deduction limits.

** Includes income transfers from other eligible sources.

† Periodic payments from employer-sponsored pension plans and deferred profit sharing plans rolled over into spousal RRSPs.

accessible to taxfilers has been increasing much faster than aggregate normal contributions.

In 1991, the year the new legislation came into effect, the total room was just \$43.5 billion. In 1993, it was \$105 billion and by 1994 it had grown to \$133 billion (Table 2).⁸ Although the \$12.3 billion in normal contributions in 1991 were nearly 30% of that year’s available room, the \$15.5 billion contributed in 1993, despite being 27% higher, represented only 15% of that year’s potential.

Even though more than 80% of taxfilers are eligible to contribute to RRSPs, only a minority have traditionally done so. Over the 1991-to-1993 period, 6.5 million or just 38% of the 17 million taxfilers with earned income contributed in one or more of these three years. Low incomes (depending also on family

	Unused room	New room	Total room
\$ billions			
1991	...*	43.5	43.5
1992	31.1	43.8	74.9
1993	61.3	43.7	105.0
1994	89.5	43.5	133.0

Source: RRSP room file
* Because the new legislation came into effect in 1991, there was no unused room that year.

income) may have made it difficult for many to contribute. Nearly 7 million eligible taxfilers (41% of the 17 million) had personal annual incomes that averaged below \$10,000 during the three years. Among these low income filers, fewer than 12% made RRSP contributions.

While 41% of men with RRSP room contributed between 1991 and 1993, only 35% of eligible women did so, partly because there are proportionately more low income and fewer high income female taxfilers.⁹

RRSP contributions are not significant for taxfilers under 25 and over 64. Relatively few have RRSP room and if they have, they usually don't participate.¹⁰ Even those who do contribute tend to use up only a small portion of their available room. Between 1991 and 1993, just 16% of eligible taxfilers in these two age groups made contributions, which, in turn, accounted for only 5% of all RRSP deposits in those years. The remainder of this analysis, therefore, is limited to the population aged 25 to 64 (essentially the working age population), and considers only their "normal" contributions.

Frequency of contribution

More than 5.9 million taxfilers aged 25 to 64, one-third of all those with RRSP room, contributed at least once in the 1991-to-1993 period. Of these contributors 49%

participated each year, 25% in two and 26% in only one.¹¹ Under 40% of those in the 25-to-34 age group contributed every year, while 57% of 45 to 54 year-olds did so (Chart B).

Nearly 2.6 million contributors aged 25 to 64 were women (44%) and their annual incidence of participation was only slightly less than that of men (47% versus 51%). Contributors who did not participate in an RPP or DPSP contributed on a more regular basis than those who were RPP/DPSP members.¹²

Not surprisingly, taxfilers with higher incomes are more likely to contribute each year. Nearly 72% of contributors with annual incomes averaging \$60,000 or more over the three years participated every year, while only 29% of those with incomes averaging below \$20,000 did so (Chart C).

Percentage of room used

Each year, about two-thirds of taxfilers aged 25 to 64 with RRSP room opt not to use this opportunity and, among those who do contribute, a growing proportion claim less than one-quarter of the room available to them. In 1991, just 18% of RRSP contributors used less than 25% of their available room. By 1993, because of the carry-forward of unused room, that proportion had increased to 38%. At the other end of the spectrum, the percentage of participants who contributed to the maximum or near-maximum decreased, although it continued to exceed 30% of all contributors in 1993 (Table 3).

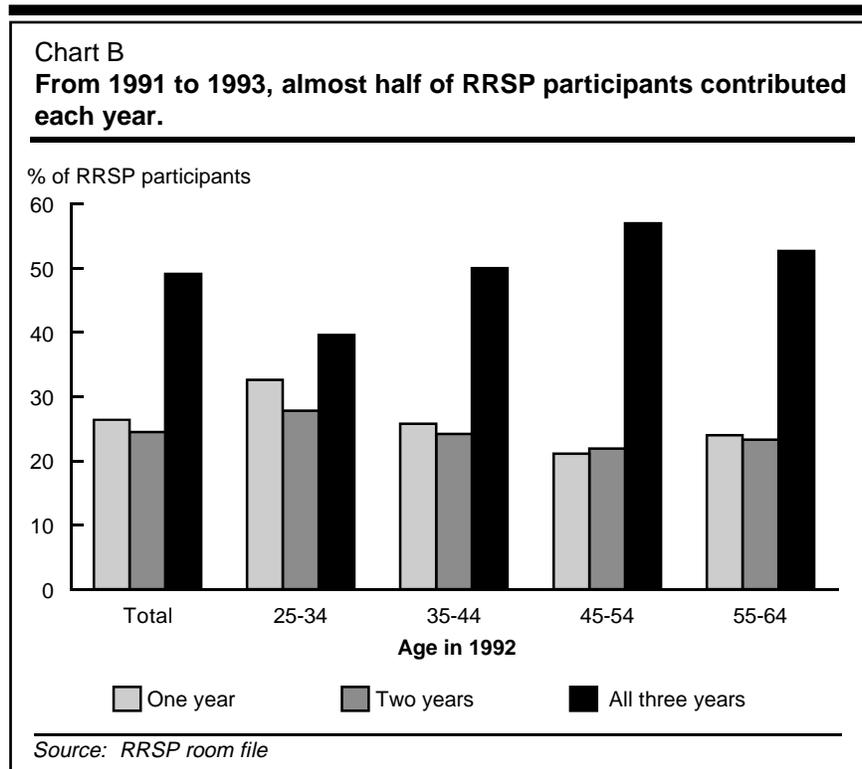
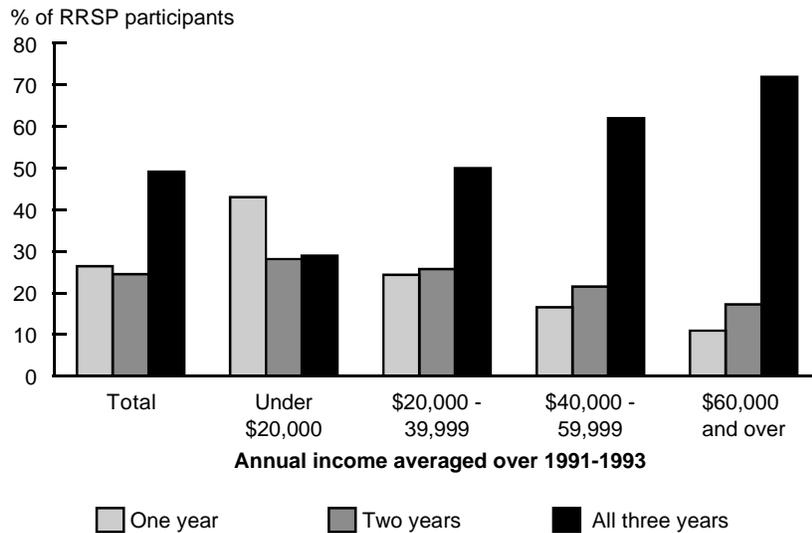


Chart C
The higher the income, the more likely RRSP participants contributed each year.



Source: RRSP room file

Taxfilers aged 25 to 64 who claimed all or virtually all their available room in 1993 numbered nearly 1.5 million. More than 700,000 of them had a pension adjustment (PA). They therefore topped up their RPP/DPSP savings with the maximum RRSP contributions possible.¹³

Men and women seem to use RRSP room similarly.¹⁴ And having a PA has little effect on the extent to which contributors take advantage of RRSP opportunities. However, the likelihood of using all available RRSP room increases with age. In 1993, just 18% of RRSP contributors aged 25 to 34 made the most of their RRSP opportunities, while nearly 49% of those between 55 and 64 contributed the maximum allowed (Chart D).

To a large extent, these age differences can be attributed to income (as well as to lower financial obligations at higher ages). High income RRSP participants are

much more likely to use up their contribution room than are those with low or medium income. In 1993, almost 56% of the 833,000 RRSP contributors with incomes of \$60,000 or more took advantage of all their available room, while less than 17% used up less than one-

quarter. On the other hand, of those who had incomes below \$20,000, only 28% used 95% or more of the room available to them and 38% used less than one-quarter.

Summary

The number of RRSP contributors and their total deposits have grown significantly since legislation allowing new opportunities came into effect in 1991. While some taxfilers were able to roll over certain types of income into RRSPs, the bulk of contributions were limited to taxfilers' available room.

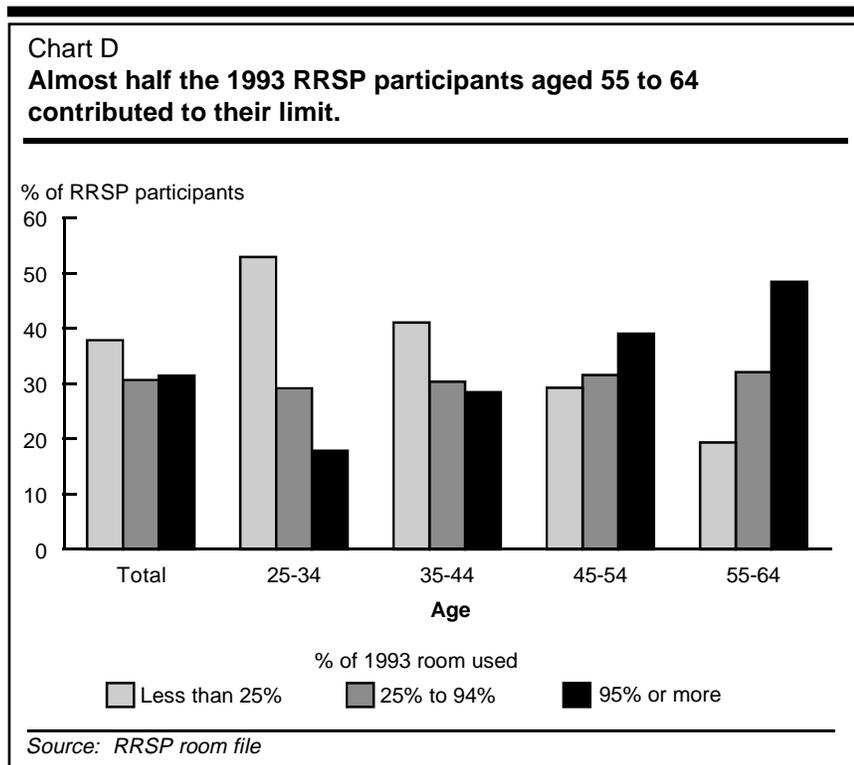
In the aggregate, RRSP room has been growing dramatically since 1991, reaching \$133 billion in 1994. Because opportunities are greatly underused by many taxfilers, this room will most likely continue to grow. Less than 20% of eligible taxfilers aged 25 to 64 contributed in each of the three years, and in 1993 only 11% of those eligible to contribute used up all of their available room.

Participating women are just as likely as men to contribute to the maximum. And being an RPP or DPSP member does not affect the likelihood of making maximum contributions.

Table 3
Distribution of taxfilers (with RRSP room) and contributors aged 25 to 64

	1991		1992		1993	
	Taxfilers	Contributors	Taxfilers	Contributors	Taxfilers	Contributors
%						
Proportion of total room used						
Total	100	100	100	100	100	100
Nil	64	...	66	...	66	...
1% to 24%	6	18	11	32	13	38
25% to 49%	7	19	6	18	5	16
50% to 74%	5	13	4	10	3	9
75% to 94%	4	10	3	8	2	6
95% and over	15	41	11	32	11	31

Source: RRSP room file



Age and income play important roles in the decision to contribute and in the extent to which available room is used. Older taxfilers and those with high incomes are more likely to maximize their contribution opportunities than are younger or less well off persons, since they generally have greater discretionary income and greater incentive to reduce their tax liability.

Assuming no changes in legislation, current patterns of contribution foreshadow major consequences for RRSPs: in 1996, as baby boomers begin turning 50, participation rates and contributions are likely to surge, possibly diminishing the rate of growth in unused room.

Update

Since these analyses were completed, Statistics Canada has released 1994 data on contributors and contributions. More than 5.3 million taxfilers contributed \$20.9 billion that year. For further information contact Small Area Administrative Data Division at (613) 951-9720.

Notes

1 Some RPP members with high pension adjustments may not have any RRSP room. "Tax assistance for pensions and RRSPs" (in this issue) explains the effect of RPP and deferred profit sharing plan membership on RRSP room.

2 For information on the role of spousal RRSPs in the accumulation of RRSP savings by women, and the role of family income in RRSP contributions, see Frenken (1991).

3 Whereas average contributions increased from \$2,610 in 1983 to \$2,850 in 1990, they reached \$3,750 in 1993. In 1983, less than 16% of all taxfilers participated in RRSPs; by 1990, 22% contributed, and by 1993, almost 27% did. Although 1990 was an unusually slow year for RRSPs, 1991 participation and average contributions increased dramatically. For an explanation of the reasons for these fluctuations see Frenken and Maser (1993).

The recent participation rate would have been higher had there not been an increase in the number of low income persons filing to benefit from tax credits and rebates. Nearly all were ineligible to contribute to RRSPs.

4 In fact, 80% of taxfilers with rollovers only were 55 or older.

5 Between 1991 and 1993, almost half (48%) of the 277,000 taxfilers with rollovers of retiring allowances were 55 or older; another 23% were between 45 and 54. Moreover, more than 91% of the 233,000 persons who rolled over pension income were 55 or older.

6 Men tend to have more years of service than do women and to be in jobs providing greater benefits, such as severance pay and pension coverage (Belkhdja, 1992; Frenken and Maser, 1992). Thus men are more likely than women to receive significant lump sum payments and/or pension benefits on termination or retirement.

7 A small portion of retiring allowance rollovers are transfers of specific types of benefits from some pension plans, RRSPs and registered retirement income funds (Revenue Canada, 1993). However, not included in rollovers are direct transfers of lump sum receipts from RPPs and DPSPs, which need not be reported on the tax return and so do not show up as RRSP contributions. A growing share of these transfers are locked in until a specified retirement age (Frenken, 1990).

In 1993, \$2.1 billion was withdrawn from trustee pension funds alone on termination of RPP membership. Most would have been transferred directly to RRSPs, including some to locked-in RRSPs (also called locked-in retirement accounts or LIRAs).

8 These data differ slightly from those published annually by the Small Area and Administrative Data Division (SAADD) of Statistics Canada, because SAADD has removed some records from the file and because this article is based on a 2% sample.

9 During these three years, 55% of eligible taxfilers with annual incomes averaging less than \$10,000 (those least likely to contribute) were women. On the other hand, women accounted for just 15% of taxfilers with at least \$60,000 (the ones who nearly always contributed). No consideration is given here to spousal RRSPs, which may provide considerable savings for some women with little or no income.

10 Those under 25 tend to have lower income and are many years from retirement. Many of those 65 or over have no earned income and therefore no RRSP room.

11 Not all taxfilers filed every year. But the bulk of those who didn't were under 25 (1.1 million or one-third of all taxfilers in this age group), another reason for their exclusion from this analysis.

12 Of the contributors with a PA, 45% participated each year; of those without a PA, more than 53% did so. Part of the latter group

are high income self-employed owners of unincorporated businesses, who are excluded from RPP and DPSP participation.

13 This analysis does not distinguish between those limited by the annual dollar amount and those subject to the 18%-of-earned-income ceiling. Also, no data were available on the extent to which taxfilers used the \$8,000 overcontribution allowance. In 1996, this allowance will be reduced to \$2,000. Any amount above this margin is subject to a penalty tax.

14 Some 32% of male contributors and 31% of female contributors claimed 95% or more of their total 1993 room.

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