

# Low incomes and RRSPs

Hubert Frenken

People with medium and high incomes are not the only ones contributing to registered retirement savings plans (RRSPs). In 1994 (the most recent data at the time of writing), 782,000 contributors (almost 15% of all RRSP participants) reported under \$20,000 in total income on their tax returns, and 158,000 (3%) had less than \$10,000. This situation was unheard of not many years ago. But, just as the percentage of young contributors has increased significantly since the early 1980s (Aldridge, 1997), so too has the participation of persons with low incomes.

The advantages of contributing by the latter group have been questioned (Canadian Institute of Actuaries, 1995; McCarthy, 1996). Indeed, workers with low incomes have little incentive to participate (see *Low motivation*). This article looks at their growing participation and suggests reasons for the increase. Using longitudinal data (see *About the data*) it examines participation by sex and income (both personal and family).

## Significant increases

In 1982, RRSP contributors numbered less than 2.1 million, 17% of all eligible taxfilers (Table). By 1992, there were 4.6 million participants, representing 37% of all those eligible. Not unexpectedly, filers with personal incomes of \$30,000 or over (1990 dollars) were responsible for the bulk of this growth. Their numbers grew from less than 1.5 million to almost 2.8

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## About the data

The data for 1982 and 1992 are from the Small Area and Administrative Data Division's original (1% sample) longitudinal administrative data (LAD) file. Information for 1994 is from the Labour Division's RRSP room file. For descriptions of the LAD file see "RRSP participation – the sooner the better" in this issue. For information about the RRSP room file see Frenken (1995).

For 1982 and 1992 all income amounts were converted to 1990 dollars. The presence of employment

million, and their participation rate increased from 34% of those eligible, to 59%. The rate for those with under \$20,000<sup>2</sup> increased as well, from just 4% to 16%; for filers with incomes from \$20,000 to \$29,999, it grew from 15% to 37%. In 1982, RRSP contributors with under \$20,000 were just 10% of the total. By 1992, they represented 17% of all participants. For those with \$20,000 to \$29,999 the percentage increased from 18% to 22%.

## Many more women

Women have accounted for most of the growth in RRSP participation in the last 15 years. They represented less than 33% of contributors in 1982, but 42% by 1992. Although their proportion has grown more rapidly among high income than low income contributors, women still make up the majority of the latter. Those with incomes of \$30,000 or more increased from 23% of participants in 1982 to 31% in 1992, and those with under \$20,000, from 60% to 65%.

income (from both paid work and self-employment) in 1982 was used to determine RRSP eligibility that year. For 1992, employment income in 1991 was used. This process may have understated the number of eligible taxfilers (and slightly overstated RRSP participation), since some people with no employment income in 1991 could still contribute in 1992, because of unused RRSP room carried forward. For details on RRSP eligibility rules see Frenken (1995).

## More contributors with low family income

Married taxfilers (legally married only) who were eligible to contribute to RRSPs and had family

## Low motivation

For taxfilers with low incomes, RRSP deductions claimed from gross income may result in little, if any, tax savings. In 1993, only 45% of taxfilers with total income under \$20,000 (but greater than zero) paid taxes and just 18% with less than \$10,000 did so (Revenue Canada, 1995).

Furthermore, government pension programs, namely, Old Age Security (OAS), Guaranteed Income Supplement (GIS) and the Canada and Quebec Pension Plan (C/QPP), provide many of these people with pension benefits equivalent to or even higher than their pre-retirement earnings.<sup>1</sup> For example, a single person retiring in 1993 at age 65, with previous employment income of \$10,000, could be entitled to government pensions amounting to \$11,200 annually. Someone with \$15,000 in employment income could have nearly 80% replaced by the public programs (Maser, 1995).

Table  
**Number and percentage of eligible taxfilers contributing to RRSPs**

Income *	Both sexes		Men		Women	
	Number	% of eligible taxfilers	Number	% of eligible taxfilers	Number	% of eligible taxfilers
		'000		%		'000
<b>1982</b>						
<b>Total</b>	<b>2,075</b>	<b>17</b>	<b>1,399</b>	<b>20</b>	<b>676</b>	<b>14</b>
\$1 to 29,999	600	8	261	7	339	8
\$1 to 9,999	25	1	9	1	16	1
\$10,000 to 19,999	192	7	78	6	114	7
\$20,000 to 29,999	383	15	174	13	209	18
\$30,000 and over	1,475	34	1,138	33	337	38
<b>1992</b>						
<b>Total</b>	<b>4,581</b>	<b>37</b>	<b>2,636</b>	<b>39</b>	<b>1,945</b>	<b>34</b>
\$1 to 29,999	1,792	23	711	21	1,081	25
\$1 to 9,999	139	7	46	6	93	8
\$10,000 to 19,999	635	22	222	18	413	25
\$20,000 to 29,999	1,018	37	443	33	575	42
\$30,000 and over	2,789	59	1,925	58	864	63

Source: Small Area and Administrative Data Division  
 \* 1990 dollars.

incomes under \$30,000 decreased by nearly 300,000 over the 10-year period; on the other hand, married contributors in this income group increased by almost 100,000, or from 5% to 16% of these taxfilers. Again, this growth can be attributed largely to the increasing participation of women – from 22% to 39% of married contributors with family incomes under \$30,000.

### Why the continued high participation?

There is no indication that RRSP participation for taxfilers with low incomes has declined since 1992. In fact, the number of contributors with income under \$20,000 was unchanged in 1994 (774,000).

If tax benefits for this group are modest and government pensions more or less adequate, why do these individuals continue to participate in such large numbers? Many may have been influenced by

financial institutions' advertising campaigns and by growing public concern over the future of government-sponsored programs (Cohen, 1996). A considerable number are young and, although they may realize small immediate tax savings, their long-term benefits may be quite significant, given the tax-free compound interest credited to them.

Not all contributions are saved until retirement. Many people may withdraw some or all deposits shortly after contributing, even within the same tax year. Previous analysis has found that for every five dollars contributed in recent years, one is cashed in before taxfilers reach age 65. Many of those dipping into their RRSP savings have low incomes (Frenken, 1996). Nevertheless, most of these taxfilers' deposits will probably remain until retirement, which should mean reduced dependency on the government safety net. □

### Note

1 As a result of the March 1996 budget, the OAS and GIS program will be phased out and replaced with a new Seniors Benefit by 2001. It will provide greater payments to those with zero or modest income from other sources, but will reduce benefits for those with high incomes. Under the new system an estimated 75% of seniors will receive benefits the same as or higher than those under the current programs (Department of Finance, 1996). This increase in benefits and beneficiaries may affect future RRSP participation by workers with low incomes.

2 This and all subsequent references to income under a stated amount exclude zero and negative income. (In contrast, the first paragraph of this article refers to all amounts, including zero).

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