

# RRSP contributions and withdrawals: An update

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Annual contributions to registered retirement savings plans (RRSPs) rose from an estimated \$15.0 billion in 1991 to \$26.2 billion in 1996. This represented an increase of 74%. Over the same period, the number of contributors to RRSPs increased from an estimated 4.7 million to almost 6 million, a rise of 28%. Withdrawals from RRSPs also rose, but at a slower pace. They increased from \$3.2 billion to \$4.4 billion, a jump of 39%.

This study briefly examines some of the factors underlying growth in RRSP contributions in recent years. It also explains how, and why, the composition of total contributions has changed. Regional differences in RRSP participation are examined for 1995, the latest year for which data are available. The article concludes with a few remarks on withdrawals.

## Factors underlying growth in contributions

Several factors are responsible for the growth of RRSP contributions. Changes to the *Income Tax Act* in 1990, which increased RRSP contribution opportunities for most taxpayers (Frenken and Maser, 1993), have had an effect,<sup>1</sup> as have improvements in the economy – notably the growth in employment since 1993. Growing uncertainty about the future of the government-sponsored Canada and Quebec Pension Plan (C/QPP) and Old Age Security/Guaranteed Income Supplement programs, and more effective marketing strategies by financial institutions, have encouraged greater RRSP participation. Finally, lower participation in employer-sponsored registered pension plans in recent years and growth in group



*Bank interior, early 1900s*

RRSPs have also probably played a role. This interplay of factors has led to the increase in both the number and percentage of taxpayers eligible to make normal RRSP contributions (RRSP eligibility rate). It has also spurred growth in the percentage of eligible taxpayers who make contributions (RRSP participation rate) and in the dollar amount they put aside.

Between 1991 and 1995, the RRSP eligibility rate rose from 75% to 80%. Over the same period, the RRSP participation rate increased from 32% to 35%, and the average amount contributed, from \$2,694 to \$3,537 (Chart). Despite these increases, RRSPs still remain underused by Canadians (Frenken, 1998).

## Changing composition of RRSP contributions

RRSP contributions fall into three categories, whose proportions have shifted as a result of new legislation implemented in recent years.

The so-called “normal” contributions, namely, those charged against taxpayers’ available deduction limits

(RRSP room), have formed the largest component. These RRSPs have their origin in a 1957 amendment to the *Income Tax Act*. Thanks to the factors previously noted, normal contributions nearly doubled between the 1991 amendment to the Act and 1996, from \$12.3 billion to \$22.7 billion (Table 1).

The second category, commonly referred to as retiring allowance rollovers (tax-free transfers to RRSPs of certain types of lump sum amounts received by employees when they retire from or terminate work), were first permitted in 1966. A 1995 amendment now allows them only for service with an employer prior to 1996. Because the volume of these rollovers is dictated by layoff and retirement patterns, contributions rose considerably following extensive layoffs in the early 1990s, from \$2.0 billion in 1991 to \$3.4 billion in 1995. By 1996, they had reached \$3.5 billion. As a consequence of the 1995 amendment, this type of contribution is expected to disappear gradually.

The third category, generally known as spousal rollovers (the

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**Table 1  
RRSP contributors and contributions, 1991 to 1996**

	Total		Normal contributions		Spousal rollovers		Retiring allowance rollovers	
	Contributors	Amount	Number	Amount	Number	Amount	Number	Amount
	'000	\$ millions	'000	\$ millions	'000	\$ millions	'000	\$ millions
1991	4,699	15,033	4,558	12,284	148	721	88	2,028
1992	4,892	16,439	4,739	13,533	160	781	95	2,125
1993	5,110	19,177	4,953	15,547	167	848	107	2,782
1994	5,425	21,268	5,265	17,436	166	861	118	2,971
1995	5,707	23,392	5,650	19,984	...	...	125	3,408
1996 <sup>p</sup>	5,996	26,200	5,930	22,700	...	...	130	3,500

Source: RRSP room file

Note: Retiring allowance rollovers for all years and spousal rollovers for 1994 have been revised from previous published data.

transfer of benefits from employer-sponsored pension plans to spouses' RRSPs), came into effect in 1974. Spousal rollovers rose from \$721 million in 1991 to \$861 million in 1994, the last year they were allowed. (For a fuller description of RRSP rollover opportunities and a look at how the legislation affecting them has changed in recent years, see Frenken, 1996b.)

The above-noted amendments have contributed to a change in the composition of total RRSP contributions over time. For example, in 1991 normal contributions accounted for approximately 82% of the total, retiring allowance rollovers 13%, and spousal rollovers 5%. By 1996, the disallowance of spousal rollovers had been offset by a similar percentage-point gain in normal contributions (then accounting for 87% of all contributions).

### Provincial and territorial variations

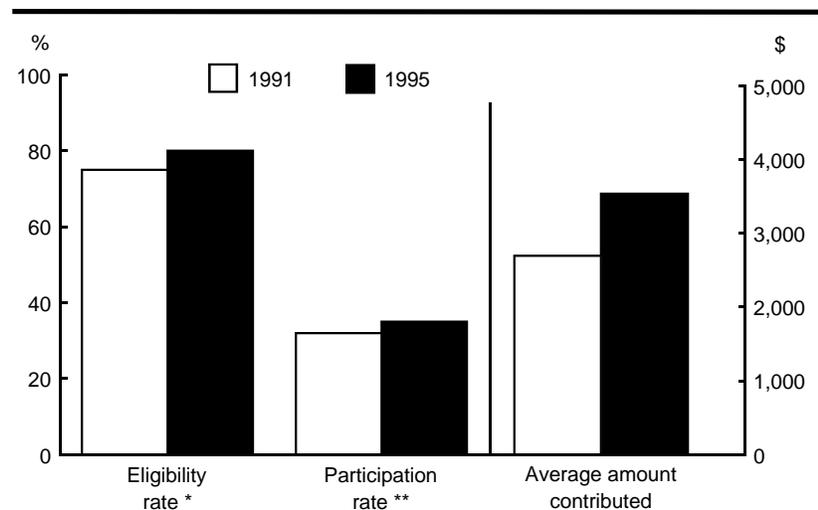
Past studies in *Perspectives* and elsewhere have shown that RRSP participation, as well as the average dollar amount contributed, varies by sex, age and income: contributions are generally higher among men, older workers and higher income groups

(Aldridge, 1997; Frenken, 1990; Maser, 1995). However, not much has been written about regional differences, even though the implications (for retirement incomes, and the marketing of RRSPs, for example) may be equally interesting. This update uses the most recent data available (1995) to examine regional participation

in RRSPs. The analysis is limited to normal contributions, which accounted for 85% of total contributions that year.

Factors affecting eligibility rates include sources of income and the suitability of such sources for RRSPs. All things being equal, regions whose

**Chart  
Only 35% of those eligible participated in RRSPs in 1995.**



Source: RRSP room file

\* Proportion of taxfilers with normal contribution room.

\*\* Contributors to normal RRSPs as a percentage of eligible contributors.

residents depend more heavily on government transfers, an income category ineligible for RRSPs, might be expected to have lower eligibility rates. Conversely, regions where a larger proportion of residents have employment income would probably have higher eligibility rates.

Factors influencing participation rates include the savings habits of residents and their demographic composition (age, sex, income and educational attainment distribution), as well as the availability of RRSP contribution room. In addition, rates may be affected by the composition of the workforce (self-employed versus employee, private versus public sector). For example, the existence of more generous pension plans in the public sector could reduce or even eliminate the incentive for some of these workers to contribute to RRSPs.

Finally, the amounts set aside for normal contributions are influenced by income, demographic composition of each region, size of RRSP room, and extent of participation in an employer-sponsored pension plan, as well as by

the composition of the workforce. All things being equal, regions whose residents command higher employment earnings would likely make larger dollar contributions. Similarly, one would expect regions with higher employer-sponsored pension plan coverage to see RRSP contributions reduced by the pension adjustment (PA) factor.<sup>2</sup> With these points in mind, what were the regional differences in 1995?

According to the data, taxfilers in the Yukon and Northwest Territories had the highest RRSP eligibility rates. More than 90% of taxfilers in those two areas had RRSP room and hence were eligible to contribute (Table 2). The national rate was 80%. Among the provinces, eligibility was high in Alberta (84%) and Prince Edward Island (83%), and relatively low in Manitoba (77%).

In terms of RRSP participation rate, Saskatchewan, Alberta and British Columbia led the country at 38%, followed closely by Ontario (37%) and Manitoba (36%) and in each of the Atlantic provinces were below the national

average of 35%. In the Maritime provinces, only one in four eligible taxfilers contributed to RRSPs, and in Newfoundland, just one in five did. Despite their high eligibility, taxfilers in the Yukon and Northwest Territories participated at rates below the national average.

Although eligible taxfilers in the Territories were less inclined to contribute to RRSPs, those who did so set aside much more money than their counterparts in the rest of Canada. The average normal contribution in the Northwest Territories was \$4,632 in 1995, and in the Yukon, \$4,065. Contributions in British Columbia (\$3,875), Ontario (\$3,749) and Alberta (\$3,597) exceeded the national average (\$3,537). Average levels for those in the remaining provinces were lower than overall, especially in Manitoba (\$2,997) and Newfoundland (\$2,948).

## Withdrawals

RRSP withdrawals by taxfilers under 65, traditionally regarded as the normal retirement age, are closely related to the health of the economy and to personal circumstances. They

Table 2  
Normal RRSP eligibility, participation rates and average contributions, by province/territory, 1995

	All taxfilers	Eligible taxfilers	Eligibility rate*	Contributors	Participation rate**	Average amount contributed
	'000	'000	%	'000	%	\$
<b>Canada</b>	<b>20,028</b>	<b>16,047</b>	<b>80.1</b>	<b>5,650</b>	<b>35.2</b>	<b>3,537</b>
Newfoundland	380	305	80.4	63	20.8	2,948
Prince Edward Island	93	77	83.0	19	24.6	3,113
Nova Scotia	632	502	79.4	135	27.0	3,101
New Brunswick	528	417	79.0	102	24.5	3,192
Quebec	4,995	3,948	79.0	1,323	33.5	3,174
Ontario	7,490	6,020	80.4	2,213	36.8	3,749
Manitoba	778	601	77.2	216	35.9	2,997
Saskatchewan	655	521	79.5	200	38.3	3,311
Alberta	1,824	1,534	84.1	583	38.0	3,597
British Columbia	2,577	2,060	79.9	777	37.7	3,875
Yukon	18	17	91.6	5	30.1	4,065
Northwest Territories	36	33	92.1	11	31.8	4,632

Source: RRSP room file

\* Proportion of taxfilers with normal contribution room.

\*\* Contributors to normal RRSPs as a percentage of eligible taxfilers.

are also affected by RRSP-related programs such as the Home Buyers' Plan begun in 1992 (Frenken, forthcoming).<sup>3</sup> Between 1991 and 1996, withdrawals rose (from \$3.2 billion to \$4.4 billion) (Table 3), as did the number of persons making withdrawals (from 604,000 to 851,000, a rise of 41%). However, most of this occurred during a lean economic period. Total withdrawals have changed only slightly since 1994. And average withdrawals have remained virtually unchanged since 1991: from \$5,271 to \$5,212 in 1996.

Another way of describing how RRSP activity is tied to the economy is to show the withdrawal/contribution ratio (total withdrawals expressed as a percentage of total contributions). From 1991 to 1994, the ratio stood at around 20%; that is, for every five dollars contributed, one dollar was withdrawn. Since 1994, with continued improvements in the economy, it has declined. In 1996, it stood at 17%, meaning that for every five dollars put into the plan, 85 cents was removed.

## Summary

Despite amendments to the *Income Tax Act* ending spousal rollovers and restricting retiring allowance rollovers, contributors and contributions to RRSPs continue to increase. The reasons for this are varied, but the amendment increasing contribution opportunities for most individuals, the economic upturn, growing concerns about the Canada and Quebec Pension Plan and the Old Age Security/Guaranteed Income Supplement programs, and financial institutions' effective promotion of RRSP participation, have all contributed. In contrast, withdrawals from RRSPs remained steady before 1995, at roughly one dollar for every five contributed, and have decreased slightly since then.

**Table 3**  
**RRSP withdrawals and withdrawal/contribution ratios**

Year	Number	Amount	Average	Withdrawal/ contribution ratio *
	'000	\$ millions	\$	%
1991	604	3,182	5,271	21.2
1992	635	3,403	5,363	20.7
1993	707	3,790	5,364	19.8
1994	775	4,240	5,473	19.9
1995	815	4,253	5,219	18.2
1996	851	4,437	5,212	16.9

Source: Small Area and Administrative Data Division, 1991 and 1992; RRSP room file, 1993 to 1996

Note: Withdrawals are for persons under 65, generally regarded as the normal retirement age.

\* Total withdrawals expressed as a percentage of total contributions.

Participation and average amount contributed vary not just by sex, age and income, but also by region. In 1995, program participation rates for normal contributions were generally higher in the three westernmost provinces and lower in the Atlantic provinces. The rate for Ontario residents was above the national average, and that for Quebecers, slightly below. Average amounts contributed in British Columbia, Ontario, and Alberta exceeded the national average, but fell short in the remaining provinces.

Residents in the Territories presented a unique picture. Though they claimed the top two positions for eligibility rates and average contributions, their RRSP participation rates were lower than the national average. □

## Notes

1 These changes were implemented in 1991. Although the effect was most noticeable between 1990 and 1991, the ripple effects of the change (for example, the possibility of carrying over unused room) probably encourage people to contribute. (For more information, see Frenken and Maser, 1993.)

2 The PA is a calculated value of the pension credits earned by the taxpayer who participates in an employer-sponsored pension plan or deferred profit sharing plan. The inclusion of the PA in calculating RRSP room is intended to provide similar tax breaks to workers with or without such coverage.

3 Withdrawals under the Home Buyers' Plan are not reported on the income tax return. While they may have some effect on RRSP savings, they are excluded from the withdrawal amounts reported in this study. For details about the plan, see Frenken (forthcoming; and 1996a).

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