

# The RRSP Home Buyers' Plan

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Since the Home Buyers' Plan (HBP) was implemented in February 1992, more than 650,000 Canadians have withdrawn \$6.2 billion from their registered retirement savings plans (RRSPs) to finance the purchase or construction of a home (Table 1). Under this plan, first-time home buyers are permitted to withdraw up to \$20,000 from their RRSPs without incurring the tax charges normally associated with such withdrawals. Amounts withdrawn must be fully repaid to the home buyers' RRSPs in equal, annual instalments within 15 years (see *HBP repayments*).

The first HBP instalments were due before March 1, 1996 and had to be reported on 1995 tax returns. Using tax data, this article presents information on the extent of the repayments and the degree of success HBP participants had in meeting their obligations that year. The data also permit first-time analysis of the characteristics of the participants. (Although preliminary 1996 information was available at the time of analysis, the most recent detailed data for study were for 1995.)

## Effects of the plan

It is not possible to determine precisely the proportion of Canadians with RRSPs who have participated in the HBP, since it is not known how many Canadians have accumulated RRSP savings; however, considering the large number of annual contributors, the proportion appears to be small. For example, 6 million persons reported RRSP contributions on their 1996 tax returns. The 119,000 people who took advantage of the HBP that year represented just 2% of contributors.<sup>2</sup>

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## HBP repayments

Withdrawals under the HBP program are still considered part of the participant's RRSP assets, but are temporarily redirected from traditional investments to a stake in the individual's home. Unlike regular withdrawals, which incur withholding taxes at the time of removal and possible additional charges when the annual tax return is filed, these withdrawals are not taxed. Neither are they reported on the annual return. However, the funds must be used to buy or build a qualifying home within a specified period of time, and repayments in annual instalments must be made over a 15-year period. Each year, Revenue Canada advises the par-

ticipant of this requirement. Missed or insufficient payments are treated as regular cash withdrawals and taxed accordingly.

For example, someone who withdrew \$15,000 in 1992 is required to repay \$1,000 to an RRSP annually from 1995 to 2009. Failure to make this payment means that \$1,000 of RRSP income will be added to the filer's tax return for the year in which payment is missed. A defaulted payment cannot be caught up; that is, the individual may not deposit \$2,000 in a subsequent year and claim all of this as an HBP payment.<sup>1</sup>

The effect of this program on the housing market is virtually impossible to determine. No doubt, many participants would otherwise have been unable to purchase a home. Others may have had sufficient resources, but decided to increase their down payment and reduce their outstanding mortgages.

Whether being able to purchase a home offsets the reduction in retirement savings and income is difficult to estimate. It depends on whether home values increase and whether one will have a mortgage-free home for retirement, with the reduced living costs that implies. Even if the amounts withdrawn are repaid as

Table 1  
Participation in the Home Buyers' Plan \*

	Participants	Withdrawals
	'000	\$ millions
<b>All periods</b>	<b>650</b>	<b>6,194</b>
February 26, 1992 to March 1, 1993	159	1,536
March 2, 1993 to March 1, 1994	102	1,011
March 2, 1994 to December 31, 1994	56	455
January 1, 1995 to December 31, 1995	79	718
January 1, 1996 to December 31, 1996	119	1,136
January 1, 1997 to December 31, 1997	132	1,306
January 1, 1998 to March 18, 1998	4	32

Source: Revenue Canada, Individual Returns and Payment Processing Directorate  
\* Number and amounts recorded as of March 18, 1998. Some additional applications may have been approved but not yet added to the database.

scheduled, there is a loss of compound, tax-free interest that would otherwise have been earned by the RRSP savings.<sup>3</sup> Moreover, failure to meet the repayment schedule results in even greater losses. A missed or inadequate payment not only incurs an immediate tax liability, but is also permanently lost as a future source of retirement income.

### Many fail to meet the required payments

In 1995, one-third of those obligated to make instalment payments either failed to do so or paid insufficiently. Almost 154,000 taxfilers reported nearly \$173 million in payments that year, for an average of \$1,120. Nearly 3,000 of them did not pay a sufficient amount, however (Table 2). Of the \$2.2 million they owed, these taxfilers deposited less than \$1.6 million. Moreover, almost 76,000 did not meet their obligation at all (nearly \$46 million, \$600 on average). The total shortfall of over \$46 million represented 21% of the amount due that year.

The default rate continued in 1996. Preliminary data show that, of the 300,000 individuals who were required to make repayments that year, 97,000 (33%) failed to do so. Of the \$271 million due that year, \$62 million (23%) was not paid.

### Fewer women than men

The 1995 tax data show that 128,000 HBP participants with payments due were men and 101,000 were women. Women's share of HBP participants seems to be directly related to their percentage of RRSP contributors. They represented 44% of taxfilers with 1995 HBP payments due—similar to their share of RRSP contributors in recent years.

On average, however, women appear to have removed higher amounts from their RRSPs under the

Table 2  
HBP instalments paid and not paid, 1995

	Both sexes		Men		Women	
	Number	Amount	Number	Amount	Number	Amount
	'000	\$ millions	'000	\$ millions	'000	\$ millions
<b>Total</b>	<b>229</b>	<b>219.1</b>	<b>128</b>	<b>120.7</b>	<b>101</b>	<b>98.3</b>
Payment	154	172.5	86	94.0	68	78.6
Complete	151	171.0	84	92.9	67	78.1
Partial	3	1.6	2	1.1	1	0.4
Shortfall	78	46.5	44	26.8	34	19.8
No payment	76	45.9	42	26.3	33	19.6
Partial payment	3	0.7	2	0.5	1	0.2

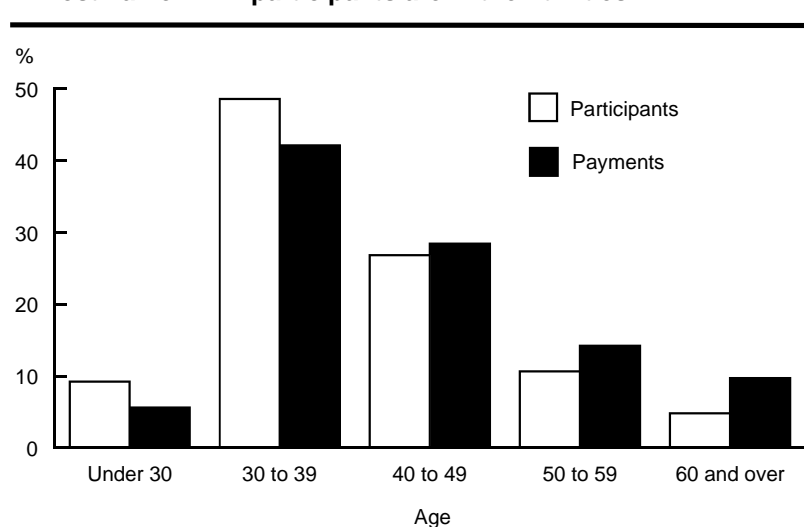
Source: RRSP room file

HBP than have men: their average repayment was \$1,160 (versus \$1,090). Furthermore, although their share of annual RRSP contributions has always been much lower than men's (only about 35% in recent years), they paid 46% of the 1995 HBP instalments and were responsible for 43% of the 1995 shortfall.

### Most participants are in their thirties

Nearly half the taxfilers with HBP instalments due in 1995 were between age 30 and 39. Moreover, this age group accounted for 42% of the amounts paid or owed (Chart A). These percentages seem high, given that only 24% of all taxfilers and 29%

Chart A  
Almost half of HBP participants are in their thirties.



Source: RRSP room file

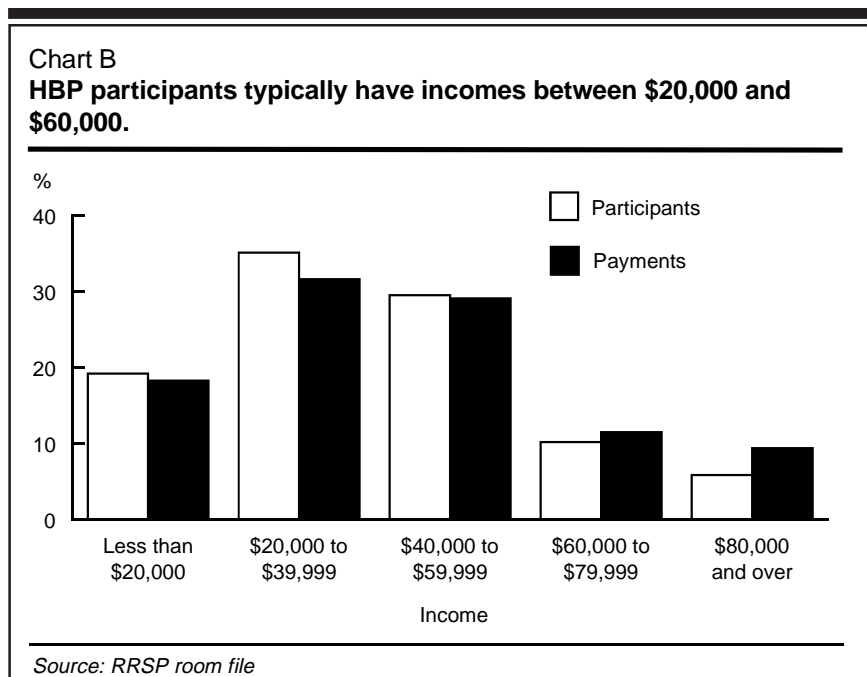
of RRSP contributors that year were in their thirties, and that they were responsible for just 27% of all 1995 contributions. However, persons in this age group are more likely than those at other ages to acquire their first homes. Older RRSP contributors, particularly those in their fifties and sixties, are apt to own a home already. Relatively few younger individuals are in a financial position to buy a home and, even if they were, they would probably have few or no RRSP savings to draw from.

Nearly 60% of HBP participants were under age 40. Those in their forties represented 28% of taxfilers with payments and 25% of those without. Surprisingly, persons aged 60 and older, who made up less than 4% of plan participants, represented 7% of the 78,000 who had not met their obligation. Some in this latter group may have experienced a reduction in their income through job loss or early retirement and may not have been in a position to make the required payments. Others may not have considered HBP payments a priority, because of the relatively few years remaining before they would have to collapse their RRSPs.<sup>4</sup>

### Many participants have low incomes

One in every five taxfilers with HBP instalment payments due had income under \$20,000 in 1995. This income group was also responsible for nearly one-fifth of the instalment payment amounts actually made (Chart B). These proportions seem high compared with their shares of RRSP contributors and contributions: in 1995, less than 10% of contributors had incomes below \$20,000 and they deposited just 7% of the total that year.

More than one-third of taxfilers with HBP instalments due had incomes between \$20,000 and \$39,999 and their combined payments were nearly one-third of the total. However, the proportion of 1995 RRSP



contributors for this income group was almost 40%. This discrepancy is probably explained by the higher age of many RRSP participants with such income, many of whom already owned a home or did not need to use their RRSP savings to purchase one.

The relatively high HBP participation rate for taxfilers with low incomes resulted in an even higher payment delinquency rate for this group. While individuals with sufficient payments and incomes below \$20,000 represented just 14% of all who met their obligations, those with insufficient payments accounted for 30% of all who failed to do so.

At the other end of the spectrum, HBP repayers with incomes of \$60,000 or more were 19% of the total, but only 11% of the group who failed to make adequate payments.

### Summary and conclusion

The Home Buyers' Plan, implemented in 1992, has generated a great deal of interest. Since then, 650,000 Canadians have removed \$6.2 billion from their RRSP savings for the purchase

or construction of a home. Data recently made available provide some insight into the extent to which these withdrawals may affect the future retirement income of those who participate in this program. Participants not only sacrifice the income that their RRSP withdrawals would have generated until retirement, they also forfeit the amount that should be repaid each year to their RRSP, if they do not make the payment.

In 1995, one-third of individuals obligated to make such instalment payments (more than 78,000) failed to do so and the shortfall (over \$46 million) was more than one-fifth of the amount due. Not only were these missed payments treated as regular RRSP withdrawals that year and taxed at the affected HBP participants' marginal tax rates, they could not be directed to RRSPs in future years, since defaulted payments cannot be caught up.

Because fewer women than men have RRSP savings, they also make fewer HBP withdrawals. However, since their average repayment in 1995 was higher than men's, it would

appear that their average withdrawals were also higher. The rate of default on repayments was the same for both sexes.

The use of RRSP savings for home purchase is more heavily concentrated among people in their thirties and forties and among those with incomes between \$30,000 and \$49,999. HBP participants with lower incomes have the highest default rates.

The HBP default rate evident in 1995 persisted in 1996. Whether it will continue remains to be seen. Installments first became due in 1995, so these early results may not be an accurate gauge of future response to HBP requirements. Eventually, participants may be better prepared to meet these obligations if higher incomes and fewer other financial pressures prevail. □

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### ■ Notes

1 For detailed information on the taxation of RRSP withdrawals and on the rules governing the Home Buyers' Plan, see Frenken (1996).

2 Even though the bulk of individuals with RRSP savings participate on an annual basis (Frenken, 1995), the total number with such savings must be well over 10 million.

3 One other consideration (often overlooked) is the burden such repayments add to future "shelter costs" of mortgage, property tax and other expenses. These payments may also hamper continued contributions to RRSPs. As well, the volatility of real estate values may serve to make a home purchase a less certain investment than in the past.

4 Starting with the 1997 tax year, RRSP holders must convert their savings to a pay-out product – either a registered retirement income fund or an annuity – by

the end of the year in which they reach age 69. Some of these older RRSP savers may already have owned a home and used the withdrawals to purchase a second or a recreational home, since the requirement that the HBP withdrawals be used only for first-time home purchase was not implemented until 1995.

### ■ References

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