

Saving for retirement: RRSPs and RPPs

Ernest B. Akyeampong

Registered retirement savings plans (RRSPs) and employer-sponsored registered pension plans (RPPs) are the two main tax-assisted vehicles for retirement income planning in Canada (see *Data source and definitions*). Until 1957, only RPPs were available. An amendment to the *Income Tax Act* that year established RRSPs as a parallel tax-free savings vehicle for all employed taxpayers, but especially for those without RPP coverage. Mainly as a result of 1990 changes to the Act, which raised the ceilings for most taxpayers, contributions to “normal” RRSPs – those subject to standard deduction limits and excluding retiring allowance rollovers – have seen a dramatic increase (from \$13.4 billion in 1991 to \$23.8 billion in 1996). In contrast, employee contributions to RPPs have risen little (from \$6.3 billion to \$6.9 billion).¹

Only about a third of employees enjoy the benefits of RPPs (Maser, 1995). Other things being equal, employees without RPP coverage might be expected to show higher RRSP participation rates and larger average contributions – in line with the self-employed² (owners of unincorporated businesses). Likewise, when RPP contributions are factored into the equation, simi-

lar overall contributions might be expected for workers contributing to both plans, and for workers contributing to RRSPs only.³ But is this happening? This study uses 1996 tax data (the latest available at the time of writing) to address these questions. Although some information is provided on workers in non-contributory RPPs, this group is excluded from most of the analysis.

Differences in RPP and RRSP use

In 1996, most employees (63%) worked for firms without RPPs or deferred profit sharing plans (DPSPs) (see *A closer look at employees and exclusions*). For the remaining 37%, participation in such plans was generally obligatory for those who were eligible to participate.⁴ Approximately one-quarter (1.0 million) of these employees belonged to non-contributory RPPs. The three-quarters (3.1 million) belonging to contributory plans put in an average \$1,951. About 1.4 million plan members contributed *only* to RPPs in 1996, an average \$1,719. The remaining 1.7 million who contributed to both RPPs and RRSPs contributed an average \$2,135 to their RPPs.

RRSP eligibility depends on tax rules that require an eligible income and a pension adjustment (PA) less than RRSP room (Frenken and Maser, 1993). Nonetheless, RRSP

participation and contributions depend on personal objectives and circumstances such as personal and family income, age and sex (Frenken, 1990; Frenken and Maser, 1993; Aldridge, 1997).

Overall, approximately 80% of taxpayers in 1996 were eligible to contribute to RRSPs; that is, they had RRSP room (Table 1). Slightly more than 95% of employees and the self-employed enjoyed such eligibility, but among the “residual” taxpayers (for example, persons relying mainly on government transfer payments, many of whom file only to obtain refundable tax credits, and pensioners) the level was 58%.

Almost all employees (99%) in firms with employer-sponsored pension plans (contributory or non-contributory) were eligible to contribute; for those in firms without such plans, the rate was slightly lower (93%). Similarly, among the self-employed, RRSP eligibility ranged from 91% for farmers to 98% for professionals (for example, doctors and lawyers).

Of taxpayers eligible to participate in RRSPs, 36% made some contribution in 1996. Employees were more likely to do so than the self-employed; 43% of eligible employees made some contribution, compared with 35% of the eligible self-employed. Only 21% of the eligible residual taxpayers did so.

Ernest B. Akyeampong is with the Labour and Household Surveys Analysis Division. He can be reached at (613) 951-4624 or akyeam@statcan.ca.

Table 1: Normal RRSP eligibility, participation rates and contributions, 1996

	All taxfilers	Eligible taxfilers	Eligibility rate	Contributors	Participation rate*	Average contribution
	'000	'000	%	'000	%	\$
Total	20,806	16,646	80.0	6,000	36.0	3,959
Employees	11,209	10,662	95.1	4,616	43.3	3,689
Non-RPP covered	7,092	6,586	92.9	2,260	34.3	3,992
RPP-covered	4,117	4,076	99.0	2,357	57.8	3,398
Non-contributory plans	1,039	1,023	98.5	639	62.4	4,017
Contributory plans	3,078	3,053	99.2	1,718	56.3	3,168
Only RPP contributions	1,360	1,335	98.2	-	-	-
Both RPP and RRSP contributions	1,718	1,718	100.0	1,718	100.0	3,168
Self-employed	1,129	1,075	95.2	372	34.6	5,579
Farmers	174	158	91.1	48	30.4	4,306
Fishermen	24	24	97.4	7	31.5	5,030
Professionals	169	165	97.6	101	61.3	9,107
Salespersons	63	59	95.1	24	40.6	6,009
Business proprietors or partners	699	668	95.5	191	28.6	3,995
Others	8,468	4,910	58.0	1,012	20.6	4,599

Source: Revenue Canada

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

RRSP participation also varied among the groups. For example, among eligible employees, those working in firms offering an employer-sponsored pension plan were more likely to participate (58%) than those working in firms without RPPs (34%). Not surprisingly, the participation rate for employees covered by non-contributory RPPs was slightly higher than that for those with contributory plans.

Among the self-employed, RRSP participation rates ranged from around 30% for farmers, fishermen and business proprietors or partners – groups whose annual incomes are generally low and highly fluctuating – to 61% for professionals.

The similarity in RRSP participation for the self-employed and employees without RPP coverage is not surprising. But the higher rate recorded by employees in firms

with RPPs runs counter to expectation. What lies behind this finding? Low incomes appear to be a major factor in lowering the RRSP participation rate for taxfilers without RPP coverage (Frenken, 1990; Frenken and Maser, 1993). For example, in 1996 some 52% of non-RPP-covered employees and 61% of the self-employed (mostly non-professionals) reported annual incomes of less than \$20,000, compared with only 9% of RPP-covered employees (Table 2).

Other factors seem to play a role in keeping RRSP participation low for the self-employed as a group. While participation tended to rise with income for employees (whether RPP-covered or not) and for self-employed professionals, this was not the case for the non-professional self-employed. Farmers, fishermen, salespersons and business proprietors or partners with annual incomes of \$80,000 or

more recorded inexplicably low RRSP participation rates in 1996.⁵ The result was that as a group only 49% of self-employed workers at this income level contributed to RRSPs, compared with more than 80% of employees.

The average contribution to RRSPs in 1996 amounted to \$3,959 (Table 1): \$3,689 by employees and \$5,579 by the self-employed. Employees without an RPP contributed more than those with an employer-sponsored plan (\$3,992 versus \$3,398). Furthermore, employees in non-contributory RPPs, as expected, put more money into RRSPs (an average \$4,017) than their counterparts in contributory plans (\$3,168). Variations among the self-employed were even more pronounced and largely reflected differences in income: average contributions ranged from \$3,995 for business proprietors or partners to \$9,107 for professionals.

A closer look at employees and exclusions

This study identifies 11.2 million taxfilers in 1996 as “employees” (those whose major source of gross income was wages or salaries and who reported no self-employment income). Some 7.1 million of this group (63%) did not have access to an employer-sponsored pension. As with the self-employed, they could contribute only to RRSPs. Almost all the remaining 4.1 million employees, identified by PA information, had RPPs, including DPSPs in some cases.

Employees	11,209,000
Without PA (Non RPP-covered)	7,092,000
With PA (RPP-covered)	4,117,000
In non-contributory RPPs	1,039,000
In contributory RPPs	3,078,000
Contributed only to RPPs	1,360,000
Contributed to both RPPs and RRSPs	1,718,000

Source: Revenue Canada

Approximately one-quarter of the 4.1 million employees with a PA did not make an RPP contribution in 1996: they had non-contributory RPPs or DPSPs. The remainder participated in contributory RPPs, and hence had deductions from their earnings.

Not all those with contributory RPPs made an RRSP contribution in 1996. Approximately 44% chose not to

contribute or could not do so because their PAs equalled or exceeded their RRSP room. The remaining 56% also purchased RRSPs.

Approximately 8.5 million 1996 taxfilers were excluded because they did not meet the target criteria (see *Data source and definitions*). Most of their income came from sources deemed ineligible for RRSP purposes. Approximately 1.0 million were both employees and self-employed over the course of the year. Furthermore, 86% of the excluded taxfilers made neither an RPP nor an RRSP contribution in 1996, making their exclusion inconsequential for this study.

Major gross income source	Excluded taxfilers millions	With income from			No contributions
		Employment	Self-employment	Both	
Total	8.5				86
Investments	1.2	20	8	2	85
Pensions	3.6	10	3	1	93
Unclassified	2.7	19	2	1	94
"Mixed" employed/ self-employed	1.0	100	100	100	38

Source: Revenue Canada

Table 2: RRSP participation by income, 1996

	Employees		
	Contributory RPPs	No RPP coverage	Self-employed
	%		
Eligible taxfilers			
Total	100.0	100.0	100.0
Under \$10,000	1.7	23.9	35.1
\$10,000-19,999	6.8	28.4	25.5
\$20,000-39,999	41.1	33.0	20.4
\$40,000-59,999	33.6	9.5	6.2
\$60,000-79,999	12.3	2.8	2.6
\$80,000 and over	4.5	2.4	10.2
RRSP participation rate*			
Total	57.8	34.3	34.6
Under \$10,000	8.1	5.6	10.5
\$10,000-19,999	31.5	21.9	32.2
\$20,000-39,999	50.1	47.4	54.7
\$40,000-59,999	65.5	70.9	71.8
\$60,000-79,999	75.9	82.1	79.0
\$80,000 and over	80.6	87.5	49.2

Source: Revenue Canada

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

As hypothesized, the average RRSP contribution by the self-employed or by employees with no RPP coverage was greater than that for employees in contributory RPPs. However, the expectation that *total* retirement savings would tend to be similar was only partly met. RPP-covered employees also contributing to RRSPs set aside an average \$5,303 (\$3,168 to an RRSP and \$2,135 to an RPP), close to the average \$5,579 put into RRSPs by the self-employed, but much higher than the \$3,992 contributed by employees without RPP coverage (Table 3). A higher concentration of low income earners among the last group – of whom roughly 85% had incomes of less than \$40,000 in 1996 – along with smaller-than-average RRSP contributions (Table 4), explains their low overall average.

Age, sex and income influence contributions

This study also considered demographic variables. The likelihood of participating in an RRSP and the amount contributed depend on a number of personal characteristics (Frenken, 1990; Frenken and Maser, 1993; Aldridge, 1997). Thus, the differences

Table 3: Average pension plan contributions by sex, 1996

	Both sexes	Men	Women
		\$	
Employees in contributory RPPs contributing to both			
RPPs	2,135	2,339	1,935
RRSPs	3,168	3,530	2,813
Total (RPP + RRSP)	5,303	5,869	4,748
Non RPP-covered employees (RRSPs only)	3,992	4,660	3,189
Self-employed (RRSPs only)	5,579	6,217	4,346
Farmers	4,306	4,434	3,838
Fishermen	5,030	5,387	2,619
Professionals	9,107	10,150	7,027
Salespersons	6,009	6,129	5,775
Business proprietors or partners	3,995	4,587	3,047

Source: Revenue Canada

noted earlier are not just a reflection of class of worker or RPP coverage.

To control for demographic characteristics, this section breaks the worker groups into sub-populations. Ideally, such factors as family income and accumulated

funds already in RRSPs would be considered. However, as these variables are not included in the taxfile used, the analysis is restricted to age, sex and income. The focus is on amounts contributed and, among RPP-covered employees, on those making both RPP and RRSP contributions. This

approach should reveal whether the findings are in line with results from earlier studies, and whether the overall findings presented in the previous section hold true after disaggregation.

Overall, men contribute more to RRSPs than women (Frenken, 1990; Frenken and Maser, 1993).⁶ This finding holds for all three worker groups in this study; that is, irrespective of RPP coverage (Table 3). Frenken and Maser also noted that for both sexes combined, average RRSP contributions increased with age. This study corroborates that finding for employees with or without RPP coverage and for the self-employed up to age 49, after which it notes a decline (Table 5). The first study also established that for the two sexes combined, average RRSP contributions increased with income (Frenken, 1990). The current study also finds this to be true irrespective of RPP coverage (Table 4). Furthermore, non RPP-covered employees and

Table 4: Average pension plan contributions by income, 1996

	Total	Under \$10,000	\$10,000-19,999	\$20,000-39,999	\$40,000-59,999	\$60,000-79,999	\$80,000 +
		\$					
Employees in contributory RPPs contributing to both							
RPP	2,135	243	531	1,343	2,366	3,326	3,670
RRSP	3,168	684	1,593	2,325	3,349	4,181	5,982
Total (RPP + RRSP)	5,303	927	2,124	3,668	5,715	7,507	9,651
Non RPP-covered employees (RRSPs only)	3,992	824	1,615	2,837	5,290	8,450	12,701
Self-employed (RRSPs only)	5,579	1,220	2,421	4,510	7,426	10,200	12,827
Farmers	4,306	1,072	2,463	4,281	6,379	7,660	10,272
Fishermen	5,030	2,233	2,319	3,630	8,549	7,092	12,751
Professionals	9,107	1,314	2,749	5,271	8,174	10,763	13,321
Salespersons	6,009	1,325	3,131	4,597	7,484	11,372	11,914
Business proprietors or partners	3,995	1,218	2,303	4,380	7,190	10,041	11,144

Source: Revenue Canada

Table 5: Average pension plan contributions by age, 1996

	All ages	<25	25-39	40-49	50-59	60 +
	\$					
Employees in contributory RPPs contributing to both RPP and RRSP						
RPP	2,135	897	1,834	2,360	2,426	1,840
RRSP	3,168	1,792	2,993	3,196	3,438	3,735
Total (RPP + RRSP)	5,303	2,689	4,826	5,556	5,864	5,575
Non RPP-covered employees (RRSPs only)	3,992	1,551	3,552	4,756	4,986	5,767
Self-employed (RRSPs only)	5,579	3,581	5,208	5,950	5,708	5,614
Farmers	4,306	3,181	4,018	4,324	4,723	4,310
Fishermen	5,030	4,407	5,125	5,070	4,832	5,249
Professionals	9,107	3,725	8,253	9,590	9,816	9,453
Salespersons	6,009	2,893	5,020	6,438	6,670	7,014
Business proprietors or partners	3,995	3,656	3,744	4,212	4,023	4,150

Source: Revenue Canada

self-employed contributors with annual incomes of at least \$80,000 came close to reaching the RRSP ceiling allowance (\$13,500) – exclusive of unused room from previous years – in 1996.⁷

Once RPP contributions are factored in, how do findings in the two sections of the analysis compare? For men, such contributions tended to close the savings gap between RPP-covered employees contributing to both plans (\$5,869) and the self-employed (\$6,217) (Table 3). The picture among women is somewhat different: RPP-covered employees contributing to both plans put more money into retirement savings (\$4,748) than their self-employed or non RPP-covered counterparts (\$4,346 and \$3,189, respectively).

Both the self-employed and RPP-covered employees contributing to both plans tended to put away similar amounts in all age groups. In 1996, non RPP-covered employees contributed the least up

to age 59 (Table 5). At 60 and over, average retirement savings were similar for the three groups (in the \$5,600-to-\$5,800 range).

Factoring in RPP contributions also tended to close the gap between the self-employed and RPP-covered employees contributing to both plans for those with incomes of less than \$40,000 (Table 4). In that income range, the combined pension contributions of RPP-covered employees exceeded pension savings of their counterparts without such coverage; beyond that, the reverse was true. Among those with annual incomes of \$80,000 or more in 1996, non RPP-covered contributors (both employees and the self-employed) contributed around \$13,000, close to the maximum RRSP allowance, compared with an average combined pension contribution of \$9,651 for employees with employer-sponsored pension plans.

Summary

Contrary to expectation, the 1996 RRSP participation rate was considerably higher among employees with an RPP than among taxfilers without such coverage. High income appears to be a major factor in the behaviour of the former. Generally low incomes among larger proportions of employees without RPP coverage and among the self-employed most likely influenced their RRSP participation rates: more than half of these taxfilers reported an annual income of less than \$20,000 in 1996. Surprisingly, relatively low rates were also recorded for non-professional self-employed taxfilers with very high annual incomes (\$80,000 and over).

Average RRSP contributions, as expected, were higher among those without RPP coverage, especially for the self-employed. However, when RPPs are considered, average retirement savings by employees contributing to both plans were similar to those of the self-employed, and higher than those of employees without RPP coverage.

Average contributions to RRSPs tended to be higher for men, and to rise with income. Contributions also increased with age for employees with or without RPP coverage, but fell among the self-employed after age 49.

When RPP contributions were taken into account, the self-employed as a group generally put more money into retirement savings, although the gap between this group and contributory RPP-covered employees tended to shrink. Average savings by non RPP-covered employees generally trailed. A few exceptions were

Data source

This study uses Revenue Canada's 2% sample file of taxfilers (sometimes referred to as the Greenbook taxfile).

For each tax year, taxfilers with a pension adjustment (PA) and RRSP room, as well as those with RRSP contributions and the amounts claimed (contributed), can be tabulated. The file also provides income by source.

Data from this taxfile differ in some respects from those published by Statistics Canada's Small Area and Administrative Data Division (SAADD). For example, the Greenbook taxfile excludes retiring allowance rollovers (estimated at over \$3 billion in 1996). Since such allowances are applicable only to employees, their exclusion actually improves the validity of the employee/self-employed comparisons in this study. Also, the Greenbook taxfile slightly undercounts employees with a pension adjustment (PA). For explanations, see Revenue Canada (1998).

The fact that some taxfilers have both self-employment income and earnings as employees complicates comparisons. To overcome this difficulty, taxfilers (20.8 million in 1996) were divided into those whose major source of gross income was wages or salaries and who reported no self-employment income (11.2 million employees), and those whose major

Data source and definitions

source of gross income was from unincorporated self-employment and who reported no wages or salaries (1.1 million). The self-employed were further divided into five groups: farmers, fishermen, professionals, salespersons and business proprietors or partners. A "residual" group (8.5 million; see *A closer look at employees and exclusions*) reported their major source of income as investments, pensions, government transfers, or combined self-employment income and wages or salaries.

Definitions

Contributory RPP: an RPP under which employees are required to contribute toward the cost of the benefits.

Deferred profit sharing plan (DPSP): an employer-sponsored savings plan registered with Revenue Canada. Employers' contributions (employees may not contribute) are based on profits. The accumulated amount may be paid out as a lump sum at retirement or termination of employment, received in instalments over a period not to exceed 10 years, or used to purchase an annuity.

Group RRSP: an arrangement for employees or members of a professional or trade association. Individual RRSP contracts must be registered for each participant and separate accounts kept for each. Employer contributions are treated as employees' earned income for income tax purposes.

Non-contributory RPP: an RPP under which the entire cost is borne by the employer.

Pension adjustment (PA): a calculated value of the pension credits accrued by taxfilers in an employer-sponsored pension plan – whether the plan requires employee contributions or not – or a deferred profit sharing plan. The PA, which is calculated from the previous year's pension credits, decreases the RRSP room or deduction limit. The use of the PA is intended to provide similar tax breaks to workers with or without RPP coverage.

Registered pension plan (RPP): an employer-sponsored plan registered with Revenue Canada and often with a pension regulatory authority.

Registered retirement savings plan (RRSP): a capital accumulation program to encourage saving for retirement. Contributions are tax-deductible within prescribed limits. Each year's RRSP limit is reduced by the assessed value of benefits accrued in the previous year under an RPP or DPSP (the PA). Unused contribution room may be carried forward. Investment income earned in the RRSP is tax-exempt until the plan is collapsed.

RRSP normal contribution: the amount – whether to the taxfiler's or the taxfiler's spousal plan – that is within the deduction limit and that reduces RRSP room. This excludes retiring allowance rollovers.

notable: women with contributory RPP coverage made larger contributions to retirement savings than did those without (employee or self-employed); at age 60 and over, members of all three taxfiling groups made almost identical average contributions; and at annual incomes of \$60,000 and

over, non RPP-covered employees put more money into retirement savings plans than their counterparts in contributory RPPs.

Finally, at very high income levels (\$80,000 and over), both employees without RPP coverage and self-employed contributors, irrespective of occupation and in

spite of low participation rates for the non-professional groups, contributed close to the maximum RRSP deductible limits. The combined average retirement savings for contributory RPP-covered employees in this income group was lower.

Perspectives

■ **Notes**

1 Employee contributions constitute only a fraction (37% in 1996) of total RPP contributions. Employers contribute the remainder.

2 In this study, the definitions of “employee” and “self-employed” are those of Revenue Canada. As such, they differ from those of the Labour Force Survey (LFS). In the LFS, the self-employed comprise self-employed in both incorporated and unincorporated businesses, and unpaid family workers. However, because unpaid family work is not reported on the tax form, and income from incorporated self-employment is indistinguishable from that of paid employment (both are reported on the same line), Revenue Canada technically treats incorporated self-employed taxfilers as employees. Thus, in this study self-employed taxfilers refer to unincorporated ones only.

3 The latter may belong to non-contributory RPPs, may not have RPP coverage, or may be self-employed. Indeed, for equity reasons the pension adjustment (PA) rules of the *Income Tax Act* allow higher RRSP contributions for taxfilers without RPP coverage. The inclusion of the PA in

calculating RRSP room was intended to provide similar tax breaks to workers with or without RPP coverage (Frenken, 1995).

4 In many firms with RPPs, part-time, casual and fixed-term employees are not eligible to participate in the plans. Increasingly, and especially in the public sector, these employees are being covered on a prorated basis.

5 In 1996, RRSP participation rates for eligible self-employed taxfilers with incomes of \$80,000 or more were as follows: farmers (21.2%), fishermen (68.8%), professionals (89.5%), salespersons (65.1%) and business proprietors or partners (14.9%).

6 Using 1987 data, Frenken noticed that while the overall average for men was higher than that for women, at annual incomes of \$50,000 or more the reverse was the case.

7 For 1996, the maximum RRSP deduction limit was \$13,500 or 18% of eligible earnings – whichever was less.

■ **References**

Aldridge, D. “RRSP participation – the sooner the better.” *Perspectives on Labour and Income* (Statistics Canada,

Catalogue no. 75-001-XPE) 9, no. 1 (Spring 1997): 41-45.

Frenken, H. “Tax assistance for pensions and RRSPs.” *Perspectives on Labour and Income* (Statistics Canada, Catalogue no. 75-001-XPE) 7, no. 4 (Winter 1995): 9-13.

---. “RRSPs: Tax-assisted retirement savings.” *Perspectives on Labour and Income* (Statistics Canada, Catalogue no. 75-001-XPE) 2, no. 4 (Winter 1990): 9-20.

Frenken, H. and K. Maser, “RRSPs – new rules, new growth.” *Perspectives on Labour and Income* (Statistics Canada, Catalogue no. 75-001-XPE) 5, no. 4 (Winter 1993): 33-42.

Maser, K. “Who’s saving for retirement?” *Perspectives on Labour and Income* (Statistics Canada, Catalogue no. 75-001-XPE) 7, no. 4 (Winter 1995): 14-19.

Revenue Canada. *Income Statistics, 1998 Edition*. Analyzing 1996 Individual Tax Returns and Miscellaneous Statistics. Ottawa: Supply and Services, 1998.

Are you moving?

Please forward your name, old address, new address, telephone number and client reference number to: **Statistics Canada, Operations and Integration Division, Circulation Management, 120 Parkdale Avenue, Ottawa, Ontario K1A 0T6**; or call (613) 951-7277 or 1 800 700-1033 toll free, or fax (613) 951-1584.

Please allow four weeks notice to ensure uninterrupted delivery.