RRSP investments

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Retirement income comes from a mix of sources, commonly referred to as the 'three pillars' (Department of Finance Canada 2003). Government sources—Old Age Security and the Guaranteed Income Supplement—make up the first pillar. These programs provide most people 65 and over with basic income support. The second pillar consists of the Canada Pension Plan and the Quebec Pension Plan, which provide basic earnings-related pensions for all workers. The final pillar includes tax-assisted employer-sponsored pension plans (EPPs) and registered retirement savings plans (RRSPs). The total value of assets held in EPPs amounted to $1.0 trillion in 2005 (Statistics Canada 2006) and almost $600 billion was held in registered plans that year.[1] Together, assets in EPPs and registered plans made up almost one-third of total family assets in 2005. Over the period from 1986 to 2003, average contributions to EPPs and RRSPs increased—for example, contributions by young couples increased from $2,000 in 1986 to $3,100 in 2003 and for prime-aged couples they increased from $3,900 in 1986 to $5,300 in 2003.[2]

RRSPs and some types of EPPs are the only components for which plan holders have any control over the investment portfolio. Investors can hold a wide variety of assets within their RRSPs, ranging from investments with predictable values such as guaranteed investment certificates to those whose values vary, like stocks of individual companies. Given the wide fluctuations seen in the stock market and the relatively modest changes in interest rates, returns to these investments, and therefore income levels in retirement, can vary dramatically, depending on the mix of investments. For the first time, the 2005 Survey of Financial Security (SFS) collected details on the types of investments held in registered plans. This article examines the characteristics of families who hold RRSPs and the allocation of assets within the RRSP according to the level of predictability of their return on investment (see *Data source and definitions*).

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Majority of families hold RRSPs

In 2005, 6 in 10 families held RRSPs, with a median value of $25,000 (Table 1). As expected, age was associated with both the prevalence and the amount. Among younger families (major income recipient [MIR] aged 25 to 44), 56% held RRSPs, compared with 68% for those somewhat older (MIR 45 to 54). For those older than the traditional retirement age (MIR 65 to 69), the prevalence dropped to 47%. This is not surprising—for many of these older families, retirement may have already occurred and some may have converted RRSPs to RRIFs.

The SFS measures the stock of RRSP assets accumulated over time as opposed to purchases of RRSPs in a specific year. Since younger families (MIR 25 to 44) have had less time to accumulate funds, they reported only $15,000 in their RRSPs (median value).[3] Those aged 45 to 54 and 55 to 64 have potentially had more years of employment to accumulate funds and, as a result, had saved substantially more ($40,000 and $55,000 respectively). After age 65, some families may have begun to draw funds out of their RRSPs as income has traditionally declined after retirement. In addition, some members of these families may have reached the mandatory age to convert RRSPs to RRIFs.[4] As a result, the median value held by these families was lower ($37,000).

Looking at retirement savings on a broader level, almost three-quarters of families had either RRSPs or EPPs (or both), with a median value of $65,800. At each age level, median EPP holdings were substantially higher than RRSPs. For those families approaching retirement age (MIR 55 to 64), 8 in 10 held either RRSPs or EPPs, with a substantially higher median value ($244,800).

Table 1 Families with financial assets

	With RRSP		With EPP		With RRSP and/or EPP	
	%	$ (median)[1]	%	$ (median)[1]	%	$ (median)[1]
All families	**60**	**25,000**	**50***	**65,400 ***	**74***	**65,800 ***
Age of major income recipient (MIR)						
25 to 44	56(*)	15,000 (*)	44*(*)	18,900 (*)	69*(*)	29,800 *(*)
45 to 54 (ref)	68	40,000	54*	116,500 *	79*	137,800 *
55 to 64	65	55,000	58	227,100 *(*)	81*	244,800 *(*)
65 to 69	47(*)	37,000	58	213,400 *(*)	71*	215,600E*
Sex of MIR						
Male (ref)	63	30,000	53*	70,000 *	77*	84,900 *
Female	55(*)	20,000 (*)	45*(*)	54,100 *	68*(*)	50,000 *(*)
After-tax family income						
Less than $36,500	35(*)	10,000E(*)	25*(*)	28,800E *(*)	48*(*)	16,300E (*)
$36,500 to $58,999	65(*)	20,000 (*)	59*(*)	52,900 *	83*(*)	54,500 *(*)
$59,000 to $84,999 (ref)	81	28,500	70*	64,000 *	94*	75,800 *
$85,000 and over	89(*)	80,000 (*)	77*(*)	162,400 *(*)	97*(*)	224,100 *(*)
Education of MIR						
Less than high school	33(*)	17,000E(*)	31 (*)	96,800E *	50*(*)	F
Graduated high school	58(*)	20,000 (*)	47*(*)	61,500 *	73*(*)	50,000 *(*)
Non-university postsecondary certificate	64(*)	25,000	55*	56,800 *	78*	65,000 *
University degree (ref)	73	30,000	59*	79,600E *	82*	102,800E*
Net worth quintile						
Bottom	19(*)	F	23 (*)	12,100E *(*)	35*(*)	4,000E (*)
Second	46(*)	6,000E(*)	39*(*)	18,400E *(*)	61*(*)	12,600 *(*)
Middle (ref)	64	15,000	58*	54,900 *	83*	33,000 *
Fourth	81(*)	35,000 (*)	70*(*)	95,500 *(*)	92*(*)	100,000 *(*)
Top	87(*)	111,100 (*)	59*	190,000 *(*)	92*(*)	250,000 *(*)

* significantly different from 'with RRSP' at the .05 level
(*) significantly different from the reference group (ref)
1. For those with holdings.
Source: Statistics Canada, Survey of Financial Security, 2005.

Families whose major income recipient was a man were more likely to hold RRSPs (63% versus 55% for families whose MIR was a woman). In addition, these families held more in their RRSPs ($30,000 compared with $20,000). The same pattern held for employer-sponsored pension plans as well as for the combination of EPPs and RRSPs.

The well-off are well invested

Family income is related to both the propensity to save and the amount saved. Since families purchase RRSPs (and other investments) out of disposable income, those with higher incomes are more likely to be financially able to invest in RRSPs. Indeed, nearly 90% of families with after-tax annual incomes of $85,000 or more owned RRSPs, with a median value of $80,000. This differs sharply from families with lower incomes (less than $36,500) where only 35% of families held RRSPs, with a median value of just $10,000.

Since income and education are related, it is not surprising that families whose major income recipient had a high level of education were more likely to have an RRSP, with a higher median value. Just a third of families whose MIR had less than a high school education held RRSPs (median value of $17,000), compared with almost three-quarters of families with a university degree ($30,000).

RRSPs are but one component of the total net worth of families. Subtracting total family debts like mortgages and consumer credit from assets such as homes,

Data source and definitions

The **Survey of Financial Security** (SFS), which covered about 5,300 families, collected information between May and July 2005 on the assets and debts of families and individuals. Residents of the territories, households on Indian reserves, full-time members of the Armed Forces, and residents of institutions were excluded. Information was collected on the value of all major financial and non-financial assets as well as money owed. This study examined families whose **major income recipient** (the person with the highest income before tax) was between 25 and 69 years of age. **Families** refers to family units of all types including unattached individuals, couples with or without children and lone parents.

All differences mentioned in the text have been tested for statistical significance using boot-strapped coefficients of variance.

Registered retirement savings plans (RRSPs) are defined under the *Income Tax Act*. Contribution limits are based on earned income and amounts contributed to employer-sponsored pension plans. Contributions and accumulated investment income are tax-deferred until withdrawal.

Employer-sponsored pension plans (EPPs) are registered with Canada Revenue Agency and also with the appropriate pension regulatory authority.

Registered retirement income funds (RRIFs) are an income stream (generally during retirement) established by transferring monies directly from an RRSP or EPP. All RRSPs must be converted to RRIFs by the end of the year in which the participant turns 69 (amended to 71 in the 2007 budget). A minimum amount (which is taxable) must be withdrawn each year, beginning the year after the RRIF is established.

A **locked-in retirement account** (LIRA) is an RRSP in which the money is locked in until the person reaches a specified age. This money would have been transferred from an employer-sponsor registered pension plan after the individual terminated employment.

Net worth is the difference between the value of total asset holdings and total indebtedness.

Acronyms used

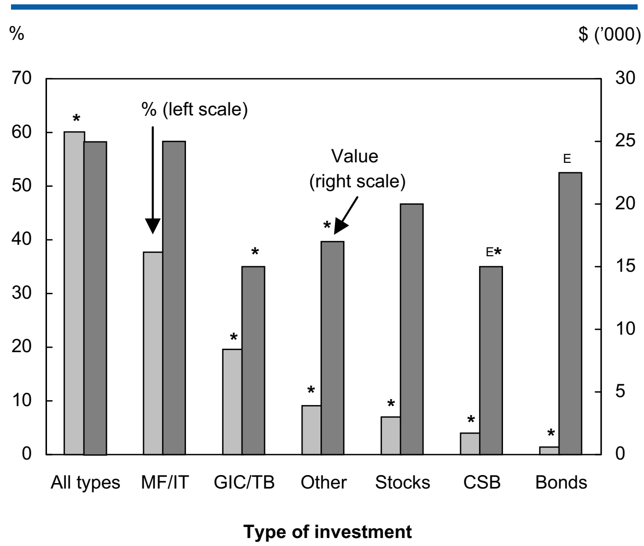
CSB Canada Savings Bond
GIC guaranteed investment certificate
IT income trust
MF mutual fund
TB treasury bill

vehicles, EPPs, RRSPs and other financial holdings determines net worth. In the bottom fifth of net worth, less than 20% of families had RRSPs. In the top 20%, however, the proportion reached 87%. Among those holding RRSPs in the top net-worth group, the median value was $111,100, significantly higher than for other groups.[5] Similarly, since EPPs are a major component of net worth, it is not surprising that those with the top net worth have by far the largest median holdings of EPPs ($190,000).[6]

Mutual funds most popular

RRSPs can be composed of a wide variety of investments ranging from guaranteed investment certificates (GICs) to stocks.[7] Mutual funds were the most common investment for RRSPs. For example, 4 in 10 families held mutual funds in their RRSPs (Chart). This may be due to the broad diversity of funds available, ranging from very predictable to highly variable. Investors may also be lowering their risk through diversification. The second most popular investment vehicle was GICs, with 20% of families holding them. These secure interest-earning assets provide investors

Chart Mutual funds most common investment, have highest median value



* significantly different from the reference group (MF/IT)
Source: Statistics Canada, Survey of Financial Security, 2005.

with a set return for a specific period, so they know ahead of time what their money will earn over the period. Like GICs, Canada Savings Bonds offer security and 4% of RRSP holders held these in their portfolios.

Generally considered less stable because they are more prone to variability and their value is less predictable, stocks can also be held by RRSP investors.[8] Of those who held RRSPs, only 7% owned stocks. However, of those who owned stocks, the median value approached that of mutual funds ($20,000 and $25,000 respectively). This could indicate that these investors may be better versed in financial matters, or perhaps smaller RRSPs do not justify the narrow focus of investing in individual stocks.

Age related to investment choices

Since RRSPs are designed to be used in retirement, and since the various investment vehicles have different levels of stability and predictability, some variation would be expected by age in the types of RRSP investments (Table 2). Indeed, older families (MIR 55 to 64) held the most stable and predictable investment types (26% held GICs and 6% CSBs) compared with younger families whose retirement investment horizon is significantly longer (15% and 3% respectively).

Also as expected, the median amounts for each investment type were higher as families approached the traditional retirement age. For GICs held by families approaching retirement (MIR 55 to 64), the median was $25,000, significantly higher than for families headed by someone 25 to 44 years of age ($9,000). Similarly, the median amount held in mutual funds by these older families was $52,000, significantly higher than for younger families ($16,000 for those 25 to 44).

Asset allocation tipped toward less predictable vehicles

While looking at RRSP holdings gives some information, it does not shed light on the asset mix held by families. To do this, the asset allocation of families was examined. Based on the stability of their value, investments were categorized as either 'predictable' (GICs, CSBs and treasury bills) or 'variable' (mutual funds, income trusts, stocks and bonds).[9] Then the asset allocation for each family was determined, and families were categorized based on the proportion of their assets held in each category.

The majority of families (59%) with RRSPs held their entire RRSP portfolios in investments with variable values while only one-quarter held exclusively assets with predictable values (Table 3).

Table 2 RRSP holdings by age of major income recipient

	For those with RRSP holdings, families holding specific type				Amount held[1]			
	25-44	45-54	55-64	65-69	25-44	45-54	55-64	65-69
	%				$ (median)			
Total	**56 ***	**68**	**65**	**47 ***	**15,000 ***	**40,000**	**55,000**	**37,000 ***
Mutual funds/income trusts	35	46 *	40	22E*	16,000 *	39,000	52,000	38,000E
Guaranteed investment certificates/treasury bills	15 *	24	26	19E	9,000 *	20,000E	25,000E	F
Other	9	9	11	7E	10,000E*	25,000E	34,000E	F
Stocks	6 *	9	9	6E	10,000E	25,000E	F	F
Canada Savings Bonds	3E*	4E	6E	F	9,000E	F	F	F
Bonds	1E	F	F	F	F	F	F	F

* significantly different from the reference group (55-64)
1. Those holding the specific type of RRSP.
Source: Statistics Canada, Survey of Financial Security, 2005.

Table 3 Families by asset allocation category

	Predictable[1]	Mixed	Variable[2]
		%	
Total	**25**	**17 ***	**59***
Age of major income recipient (MIR)			
25 to 44	24	11 *(*)	65*(*)
45 to 54	23	20	57*
55 to 64 (ref)	26	26	48*
65 to 69	39[E]	13[E] *(*)	47
Sex of MIR			
Men (ref)	23	18 *	59*
Women	28	14 *	59*
Education of MIR			
Less than high school	40 (*)	10[E] *(*)	51
Graduated high school	27 (*)	10[E] *(*)	63*
Non-university postsecondary certificate	28 (*)	19 *	53*(*)
University degree (ref)	17	20	62*
After-tax family income			
Less than $36,500	35 (*)	9[E] *(*)	56*
$36,500 to $58,999	32 (*)	13 *	55*
$59,000 to $84,999 (ref)	20	19	62*
$85,000 and over	13[E]	25 *	61*
Net worth quintile			
Bottom	35[E]	F	59*
Second	35	8[E] *	58*
Middle (ref)	33	10[E] *	58*
Fourth	20 (*)	20 (*)	60*
Top	17 (*)	25 *(*)	58*
Any type of EPP			
No members (ref)	27	14 *	58*
One member	25	18 *	57*
Two or more members	20 (*)	18	62*

* significantly different from 'predictable' at the 0.05 level
(*) significantly different from the reference group (ref)
1. GIC, CSB and treasury bills.
2. MF, IT, stocks, bonds.
Source: Statistics Canada, Survey of Financial Security, 2005.

Two-thirds of younger families held all of their RRSPs in investments with variable values, substantially more than older families (close to half for families with an MIR 55 or older). This follows a life-cycle model of investment, where the risk associated with higher but variable returns gradually gives way to the need to have more stable or predictable income in retirement.

Holding exclusively investments with predictable values was more common among families whose MIR had less education. About 40% of families whose MIR had less than a high school education held all of their RRSPs in predictable vehicles compared with just 17% for those with a university degree.

Also, families with lower after-tax incomes were more likely to hold only investments with predictable values (35% for families with lower incomes compared with 13% for families with after-tax incomes of $85,000 or more). Similarly, families in the bottom net-worth quintile invested exclusively in predictable investments more often than families in the top quintile. Several factors may be influencing these decisions. Families with lower incomes or net worth may not feel that they can afford to lose money should their investments not be profitable. Perhaps families are not planning these investments for use in the long-term—indeed they may need to access this money earlier, should the need arise (Giles and Maser 2004).[10] Interestingly, proportions of those holding only risky investments varied very slightly (if at all), depending on income or net worth—instead, differences across income and net worth categories were mixed, with families having a combination of investments.

Relation to other types of retirement savings

Employer-sponsored pension plans (EPPs) provide employees with regular incomes at retirement, but not all workers are part of such plans. These plans are additional savings, which will become available at retirement. As such, they may influence whether and where a family saves additional funds in an RRSP. Families without an EPP were more likely to invest their RRSPs entirely in predictable retirement investment vehicles (27% with no EPP members in the family versus 20% with two or more members). Part of this difference is likely attributable to the relationship between EPP plan availability and income—lower-paying jobs are less likely to provide EPPs (Marshall 2003).

Summary

Canada's retirement income system is based on three pillars: the Old Age Security program providing basic income support, the Canada Pension Plan and Quebec Pension Plan offering earnings-related pensions, and tax-assisted plans allowing for private savings for retirement. Private savings for retirement constituted almost one-third of total family assets in 2005.

In 2005, 6 in 10 families held RRSPs, with a median value of $25,000. A smaller proportion of younger families (MIR aged 25 to 44) than those in the years before retirement (MIR 45 to 54) held RRSPs (56% and 68% respectively).

Nearly 90% of families with higher levels of after-tax income ($85,000 or more) held RRSPs, substantially more than families with lower levels of income (35% for families with an income under $36,500). For those owning RRSPs, the median amount held varied similarly by income.

Investors can hold a variety of investments in their RRSPs. The most common holding was mutual funds (38%), likely due to the broad range of products available. Guaranteed investment certificates, with their predictability, were the second most popular, with 20% of families holding them. At the other end of the RRSP investment spectrum, only 7% of families held stocks.

Perhaps more important than the type of investment is the asset mix held by families. The majority (59%) of families held their entire RRSP portfolios in variable-value assets (mutual funds, stocks or bonds). Only one-quarter held assets with predictable values (guaranteed investment certificates, Canada Savings Bonds or treasury bills) exclusively. Two-thirds of younger families held assets with variable values exclusively, substantially higher than rates for families of the age traditionally thought of as retirement age (less than 50% for families with MIR 55 to 69). Families with lower levels of income were more likely to hold only assets with predictable values.

Perspectives

Notes

1. RRSPs, LIRAs, RRIFs or deferred profit-sharing plans, annuities and other miscellaneous pension assets.
2. See Morissette and Ostrovsky 2006 for a complete discussion of retirement savings of Canadians, 1986 to 2003.
3. When comparing differences between age groups, some of the difference may be an age effect and some may be a cohort effect.
4. At the time of the SFS, the mandatory age for conversion was 69. Under proposed legislation, this limit was changed to 71 in 2007 (Canada Revenue Agency 2007).
5. Obviously, some of this is due to RRSP holdings being part of the value of net worth.
6. Based on median values for those holding EPPs, they are the top financial asset held and only real estate holdings exceed their value (Statistics Canada 2006).
7. See Canada Revenue Agency 2002 for details on which investments qualify.
8. While stocks are often held indirectly by investors as part of mutual funds, in this study 'stocks' refers specifically to those purchased directly by the investor.
9. While variable investments run from 'risky' to 'relatively risk-free,' their values are neither predictable nor guaranteed, unlike GICs, CSBs and TBs.
10. Approximately one-quarter of tax filers aged 20 to 59 as of the end of 1992 made at least one withdrawal from an RRSP between 1993 and 2001. Life events were one explanation—loss of a spouse, involuntary job loss and starting a new business were all associated with withdrawals of substantial sums ($10,000 or more).

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