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## **USE OF RETIREMENT SAVINGS BEFORE RETIREMENT IN CANADA**

**Philip Giles, Karen Maser**

For additional information please contact:

Author Name(s): Philip Giles, Karen Maser  
Author Address(es): Income Statistics Division  
Statistics Canada  
Ottawa, Ontario  
CANADA K1A 0T6  
Author E-Mail(s): [philip.giles@statcan.ca](mailto:philip.giles@statcan.ca);  
[karen.maser@statcan.ca](mailto:karen.maser@statcan.ca)  
Author FAX(es): (613) 951-0085  
Author Telephone(s): (613) 951-2891 (Philip Giles)  
(613) 951-0793 (Karen Maser)

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## **Use of retirement savings before retirement in Canada**

As is the case in many other countries, Canada has a program, called Registered Retirement Savings Plans (RRSPs), to encourage personal saving for retirement. (See BOX 1 for further description of RRSPs, and other components of Canada's retirement income system.) Most Canadians are aware of the benefits of using RRSPs, both because of the immediate tax advantage, and as a way to save for retirement. This does not mean, however, that everyone is in a position to save in this manner, nor does it mean that the money saved is always used for its intended purpose, as a source of income in retirement. Although there are consequences to withdrawing money from RRSPs (both because savings are reduced and tax must be paid), many people must, or choose to, do just that. This article will use data from two different sources (see BOX 2) to examine "premature" withdrawals<sup>1</sup> from RRSPs from 1993 to 2001, and to see whether major life events, such as a marital separation, death of a spouse or loss of a job, appear to impact on this behaviour.

Why is it important to know whether money is being withdrawn early from RRSPs? RRSPs constitute an essential component of Canada's retirement income system (see BOX 2), especially for those whose employment income prior to retirement is sufficiently high that the income they will receive solely from the government-sponsored retirement programs (Old Age Security/ Guaranteed Income Supplement and the Canada and Québec Pension Plans) will make it difficult for them to maintain the same standard of living. For that reason, understanding who uses RRSPs, and who needs or opts to withdraw funds from them, can help to identify those groups that may not be financially prepared for retirement.

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<sup>1</sup> Other than through the Home Buyers Plan (HBP) or the Lifelong Learning Plan (LLP). The withdrawals referred to here are those on which tax is payable in the year the withdrawal is made. This would include defaults on repayments to the HBP and LLP.

## **Many Canadians withdrawing from their RRSPs**

Close to two-thirds (65%) of taxfilers aged 20 to 59 as of the end of 1992 (see BOX 3, Who is included?) contributed to an RRSP at some point from 1993 to 2001. However, during this same period, over one-quarter of those taxfilers (26%) made at least one withdrawal. (See Table 1.) This situation appears rather more serious if those withdrawing are viewed as a percentage of those who are known to have invested in an RRSP, either because they made a contribution or a withdrawal over this period<sup>2</sup>. In that case, the percentage of people withdrawing increases greatly, to 39%. In other words, for every three people known to have an RRSP, more than one person made a withdrawal.

Is income a factor? Decidedly, as can be seen in Table 1. Just 9% of taxfilers in the lowest income decile (i.e., the 10% with the lowest income) withdrew money from an RRSP at some point from 1993 to 2001. This increased to just over 30% of taxfilers in each of the 6<sup>th</sup> to 9<sup>th</sup> income deciles. It is important to note that lower income people are not surprisingly also much less likely to contribute to an RRSP. If those withdrawing are once again viewed as a percentage of those who were known to have an RRSP from 1993 to 2001, it can be seen that three-quarters of those in the lowest decile, and over half of those in the second lowest, took money out of that retirement savings vehicle. Therefore, not only are these people less likely/able to save, the chances that they will withdraw some money from those savings are very much higher.

For many in the lower income deciles, the income from OAS/GIS and C/QPP will more than replace their pre-retirement earnings. From that perspective, the additional income from RRSPs may not be required to maintain their

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<sup>2</sup> This would exclude those people who have an RRSP but who did not contribute to it, or withdraw money from it, from 1993 to 2001.

living standard. That is less likely to be the case for those in the higher income deciles and, in that sense, the implications of taking money out of their RRSP may be greater. However, although the percentage of those known to have an RRSP who withdrew money declines somewhat as income increases, even for those in the seventh income decile, over 40% made a withdrawal at least once from 1993 to 2001.

### **Many are withdrawing more than once**

One of the information sources used for this analysis (the PA/RRSP file) makes it possible to see not only whether a withdrawal was made but also whether this was done once or repeatedly. Indeed, a number of people made multiple withdrawals over the 1993 to 2001 period. Almost half (48%) of those withdrawing money did so in more than one year and one-in-four removed funds from their RRSP in at least 3 of the 9 years (Chart 1). Those people may be facing unexpected expenses for which they need to use their RRSP savings, or they may not view their RRSP contribution as a means of long-term savings but rather as a method of reducing their current taxes, or of setting aside money for periods when their income is lower (LeBlanc, 2002). The self-employed may be particularly subject to income volatility and therefore more likely to use RRSPs in this way (Palameta, 2003). Unfortunately the PA/RRSP file cannot shed light on this as it is not possible to identify the self-employed with the information on that file. Nor is the reason for the withdrawal known.

Evidence of the possible use of RRSPs to smooth income lies in the fact that those same people who are withdrawing money on a relatively frequent basis continue to make contributions, actually more often than is true for others. Over half (54%) of those who made three or more withdrawals over this period also contributed in at least five of the nine years. A much lower proportion (38%) of all taxfilers contributed that frequently. (See Table 2.)

## **Do people “repay” the amount withdrawn from their RRSP?**

Are these frequent withdrawers contributing more often in an attempt to “pay back” the money they have withdrawn? This is a very difficult question to answer, as information is not available on the reasons for contributing or withdrawing. However, it is possible, using the information from the PA/RRSP file, to see whether people are able, in the time frame of this study, to return to their RRSP the amounts they withdrew, by making subsequent contributions. To do this, all contributions and withdrawals were converted to 2001 constant dollars, to take account of the fact that simply returning to their RRSP the exact dollar amount of their withdrawal would not be sufficient; had that amount remained in their RRSP there would have been some return on that investment. It is important to note that “repaying” to their RRSP amounts withdrawn does put that individual in the same situation as someone who had not made a withdrawal, as the latter individual could have continued to make additional contributions (assuming they had the available means and RRSP room<sup>3</sup>) and accrued earnings on those contributions. In that way, they could have saved more than someone who had made a withdrawal and “repaid” it. What this analysis does do, however, is indicate how many of those who make withdrawals do, in fact, “repay” that amount.

Although many of those withdrawing money from their RRSP make subsequent contributions, in some cases sufficient to “repay” the withdrawal, the data indicate that this can take many years. Three years after making the withdrawal just one-quarter had “repaid” that amount to their RRSP. This had increased to about one-third after five years and was still under 40% by the end of the period of this study (after eight years). (See Chart 2.) Thus, over 60% had not, even that long after making the withdrawal, reinvested the amount of their withdrawal into their RRSP.

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<sup>3</sup> RRSP room is the maximum RRSP contribution that can be deducted from income, for income tax purposes. In 2001, the maximum amount for that year was \$13,500, less an adjustment for those belonging to an RPP.

Those who were older when they made the withdrawal were least likely to have returned the money to their RRSP eight years later. (See Chart 3.) Here the focus is on those making their first withdrawal in 1993. Just 22% of those 50 to 59 were able, by 2001, to return to the situation they had been in prior to the withdrawal in 1993. And, as indicated above, this does not take into account the fact that, if they had the required RRSP room, they could have made additional contributions, and accrued earnings on those investments. For these older age groups, this can have serious implications for the income they can generate from their RRSP in their later years. How serious this is for any individual could only be determined with additional information on their financial situation.

### **All age groups equally likely to withdraw from their RRSP**

Given the difficulty that older people have in returning money to their RRSP after making a withdrawal, are they less likely to be taking money out of their RRSPs? That does not appear to be the case. Approximately one-quarter of those in all age groups, from 20 through to 59 (as of the end of 1992), made a withdrawal from 1993 to 2001. In fact, older withdrawers were somewhat more likely than the younger ones to be making multiple withdrawals, although the difference is not pronounced. Close to 29% of those aged 50 to 59 who withdrew money, made at least 3 withdrawals over the period, compared to 23% of the 20 to 29 years old. (See Table 3.)

### **Number withdrawing up sharply from 1993 to 2001**

Thus far we have looked at the pattern of RRSP withdrawals and contributions over the entire period 1993 to 2001. This does not tell us whether there have been changes in behaviour from the beginning to the end of this period. It is first important to note that although the percent of taxfilers taking money out of their RRSP may not appear to be large even in

2001, when it stood at 6.7%, it close to doubled from 1993 (3.8%). In comparison, the percent of taxfilers contributing to RRSPs rose more modestly, 18% over that same period (Table 4). In 2001, there were just over one million withdrawers, and 5.7 million contributors.

Although the number of people withdrawing was increasing, the median amount of the withdrawal was down significantly, by over 46%<sup>4</sup>. The median withdrawal in 2001 was \$1,568, meaning that half of those withdrawing took more out of their RRSP, and half less. In comparison, the median contribution increased 11% over this period, to \$2,550.

There were large variations in these trends by age (Chart 4). Those 50 to 59 years of age experienced a more modest decline in the median withdrawal (of 19%), together with the biggest jump in the number of persons withdrawing. As a result, there was an 83% increase in the total amount withdrawn by people in this age group. This increase for older persons is consistent with the results of an earlier study, which looked at the period 1991 to 1994 (Frenken, 1996). In contrast, the increase in the aggregate amount withdrawn by the younger age groups was much smaller (Chart 5), due both to a more modest increase in the number withdrawing and a much larger drop in the median withdrawal. This was most pronounced for those 30 to 39: the median withdrawal for this age group was down 57%.

### **Younger age groups withdrawing smaller amounts**

Does there appear to be any explanation for this? Looking at the amounts withdrawn does help to shed some light on this. Although there has been an increase in the number of younger persons withdrawing funds from their RRSP, the tendency has been for them to withdraw much smaller sums than in the early 1990s. This is most striking for those 30 to 39; in 1993, just 8% of the withdrawers in that age group took less than \$500 out of their RRSP,

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<sup>4</sup> Median withdrawals are stated in constant 2001 dollars.



by 2001 the withdrawal of these smaller amounts was much more common, just over 30% withdrew less than \$500. (See Table 5.) Although somewhat less pronounced for those 20 to 29, the same trend can be seen for this group. Perhaps the younger age groups are becoming increasingly aware of the importance of saving for retirement, and are attempting to minimize the amounts they remove from their RRSPs. Certainly earlier studies have shown both that more young people are investing in RRSPs (Aldridge, 1997) and that, income and other variables held constant, they are more likely than older people to contribute to RRSPs (Palameta, 2003). Another factor could be the economy, which was stronger at the end of the decade; this might have reduced the need to use savings, from RRSPs or other sources.

The fact that the older age groups more commonly withdraw larger amounts may not seem surprising, given they would have accumulated more in their RRSP. The striking thing for those 50 to 59 is not so much the change that has taken place from 1993 to 2001, but rather the size of the amounts that are being withdrawn. In 2001, close to one-third of those withdrawing money from their RRSP in this age group removed at least \$6,000 from these savings. This was done at a time in their lives when returning the money to their RRSP could prove quite difficult, and, as was shown earlier, is not likely to happen. This age group represented 20% of all those withdrawing money in 2001, up slightly from 17% in 1993. What would cause people to take this action at this stage of their life? For this we turn to the Survey of Labour and Income Dynamics, to see if the information it can provide on changes to individual and family circumstances can help to answer this question, and others relating to the events that might precipitate the need to remove money from an RRSP.

### **Are certain life events linked to RRSP withdrawals?**

In an attempt to better understand the reasons for withdrawing from an RRSP prior to retirement, seven important "life events" were identified that

could have financial implications, and possibly lead to an RRSP withdrawal.

These seven events are:

- Separation from a spouse (married and common-law)
- Death of a spouse (married and common-law)
- Involuntary loss of job
- Return to school full-time
- Buying a house
- Birth of a child
- Starting a business

For each of the life events, the basic approach was to examine persons aged 20 to 59 who experienced the event and then to determine the proportion who made a withdrawal in either the year in which the event occurred, or in the following year. This proportion was then compared to that of the population "at risk". Each of these life events, and the population "at risk", is defined in BOX 4. Using the data from this survey, it is not possible to conclude that the RRSP withdrawal was actually due to the life event, only that it happened around the same time as that event. One could hypothesize, for each event, on the relative timing of the life event and the withdrawal. For this analysis, a more general approach has been taken.

This analysis looked both at whether the life event was more likely to result in an RRSP withdrawal (Table 6) and whether, if a withdrawal was made, it was more likely to be large (defined here as being \$10,000 and over) (Table 7).

The results suggest that certain life events seem to be linked to the need for additional funds; for some people these funds appear to have come from their RRSPs. It is worth looking briefly at the results for each of the defined events:

Death of a spouse: The death of a spouse had the largest impact on RRSP withdrawals. Those people who lost a spouse/partner were much more likely than those who did not to make a withdrawal from their RRSP. And, for those who made a withdrawal, those whose spouse died withdrew large amounts (of \$10,000 or more) from their RRSP much more frequently than others “at risk” (i.e., those who were married but did not experience the death of a spouse). This may be one reason why, as was seen using the data from the PA/RRSP file, the older age groups are so much more likely to be withdrawing large amounts from these savings, at a time when they are very close to converting those savings into a regular source of income in their senior years. This event is somewhat different than some of the others; in many cases it can be unexpected, and there may not have been any prior financial planning, or opportunity to plan. RRSPs therefore could provide a needed source of financial support.

Separation from a spouse: Although the percent withdrawing from their RRSP was higher for those who had recently separated, the difference was smaller than for most of the other life events.

Involuntary loss of a job, starting a business: Although involuntary job loss did not have an appreciable effect on the likelihood of making an RRSP withdrawal, those starting a business were somewhat more likely to have withdrawn money. However, for those withdrawing money, both of these events are much more frequently associated with the withdrawal of more substantial sums (\$10,000 or more). This is not entirely surprising, as both of these situations could result in the need for larger sums of money.

Birth of a child: This event had a small impact on the proportion of people making a withdrawal from their RRSP. Interestingly, the proportion of those withdrawing who took \$10,000 or more out of their RRSP was considerably lower than for those who did not give birth to a child. This is consistent with the fact that those giving birth are generally younger and, as was seen using

the data from the PA/RRSP file, this age group is much less likely to make large withdrawals from their RRSP.

Buy a house: Although this had only a slight impact on the likelihood of making an RRSP withdrawal, for those who did there was a tendency to withdraw larger amounts. Withdrawals under the Home Buyers Plan (HBP) were not considered in this analysis. The HBP plan allows people to withdraw up to \$20,000 from their RRSP for the purchase of a home, with no tax penalty, as long as they return the money to their RRSP within a prescribed period of time. However, the HBP applies only to first-time home buyers; these larger amounts may have been withdrawn by people who did not qualify for the HBP or who required amounts over and above the limit prescribed under that plan.

Return to school full-time: For the major income earner this had little effect on RRSP withdrawal behaviour. There was some impact if the partner of the major income earner was returning to school. Student loans are the more common method of financing this activity, which makes it somewhat more difficult to interpret these findings. Withdrawals under the Lifelong Learning Plan were not considered here although this program would have had little effect on this analysis, as it came into effect late in the period of this study (in 1999).

## **CONCLUDING REMARKS**

Both the PA/RRSP file and SLID contain information that can help to shed light on the extent to which people are withdrawing money from their RRSP, and some of the possible factors that might result in the need to dip into RRSP savings. Some of the highlights of this analysis include:

- Although RRSPs are now commonly used to accumulate savings, many people also must, or opt to, take money out of these plans. This is not a practice restricted to the lower-income groups; over 40% of those in the

middle income deciles known to have RRSPs made withdrawals from 1993 to 2001.

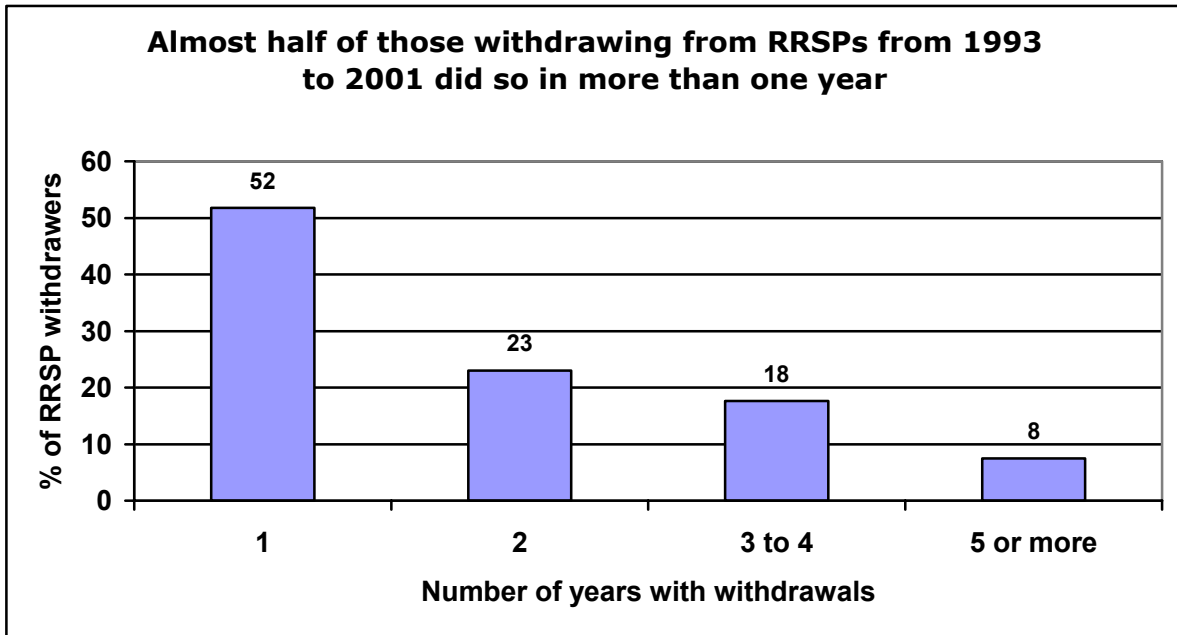
- People in all age groups were almost equally likely to be making withdrawals (approximately one-quarter of all age groups).
- The likelihood that people will be able to return money to their RRSP after withdrawing it is not high. Overall, just under 40% making withdrawals in 1993 had returned that money to their RRSP by 2001; this proportion was even lower for the older age groups (22% for those 50 to 59).
- From 1993 to 2001 there was a large increase in the number of people making withdrawals (84%). However, the median withdrawal decreased quite substantially (46%), largely because people, particularly those 20 to 39, have been withdrawing much smaller amounts.
- Close to one-fifth of those 50 to 59 who withdrew funds from their RRSPs took out relatively large amounts (\$10,000 or more); this analysis also indicates that this age group is less likely to "repay" these withdrawals.
- Several life events were associated with an increase in the likelihood of withdrawing money from an RRSP: people who lost a spouse/partner more frequently made a withdrawal, and a large one, and people who involuntarily lost their job, or started a new business, more frequently withdrew substantial sums (\$10,000 or more) from these savings.

Although there has been an increase in the number of people withdrawing money from their RRSP, younger people are making smaller withdrawals. Whether this can be attributed to an increased awareness of the importance of leaving their retirement savings untouched is not known, with the information available for this analysis.

The data from SLID and the PA/RRSP file do point to one issue that appears to warrant further investigation: the fact that many withdrawers over 50 are removing large sums from their RRSP. As the information from SLID reveals, this happens, in some cases, following the death of a spouse/partner. Whether this results in financial hardship for those making the withdrawal is

not known. Additional information would be required to better understand the longer term effects for these people of withdrawing these amounts from their retirement savings.

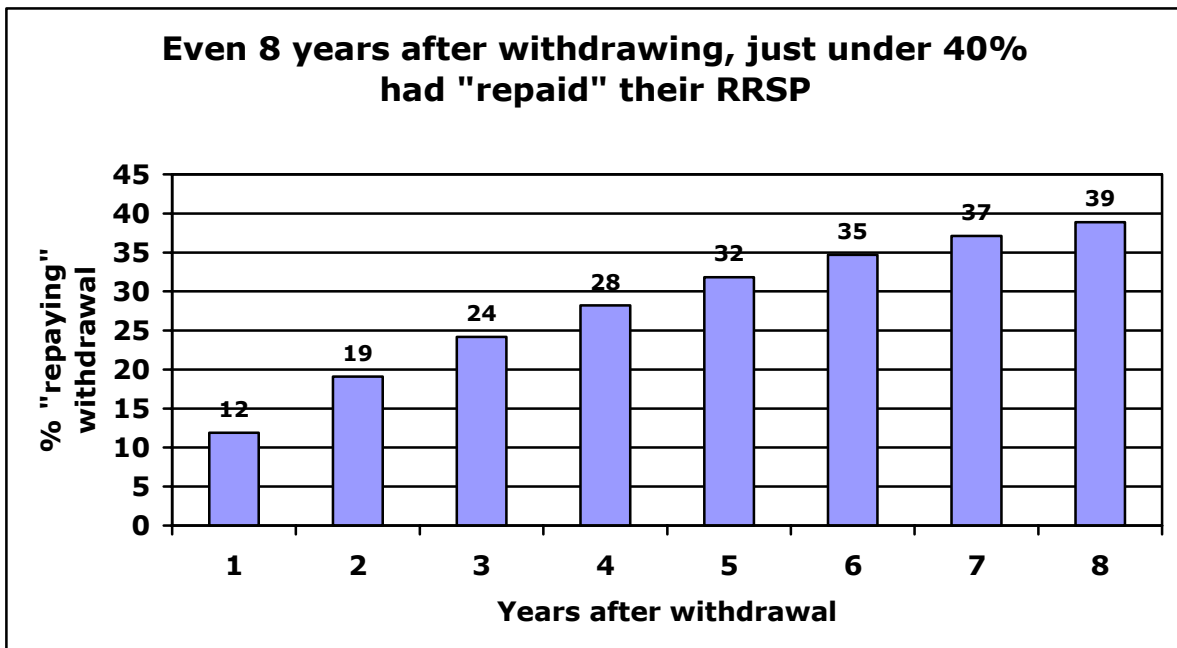
**Chart 1**



Source: PA/RRSP file, Canada Revenue Agency

What chart shows: Number of years from 1993 to 2001 that taxfilers (who were 20 to 59 at the end of 1992) withdrew money from their RRSP.

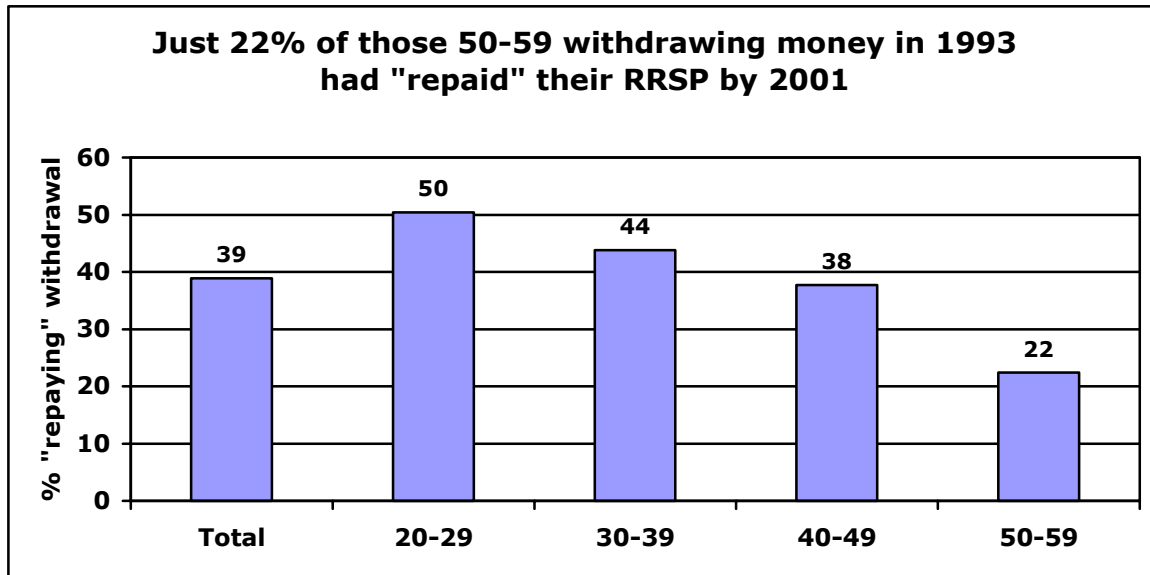
**Chart 2**



Source: PA/RRSP file, Canada Revenue Agency

What chart shows: Percent of taxfilers who were 20 to 59 at the time of the withdrawal who were able to "repay" their RRSP in 1 year, 2 years, up to the the end of the period of this study (8 years).

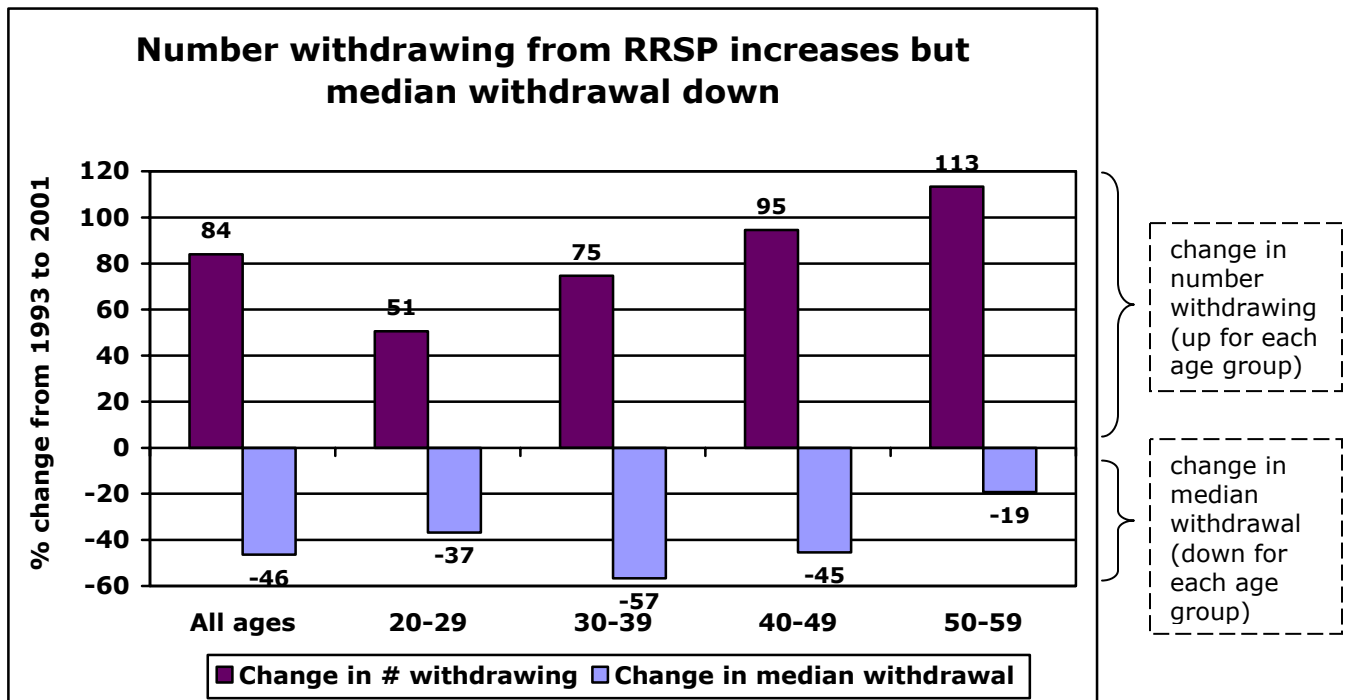
**Chart 3**



Source: PA/RRSP file, Canada Revenue Agency

What chart shows: Percent of taxfilers, by age, withdrawing money from their RRSP in 1993 who had repaid it by 2001. Age is age at the end of 1992.

**Chart 4**

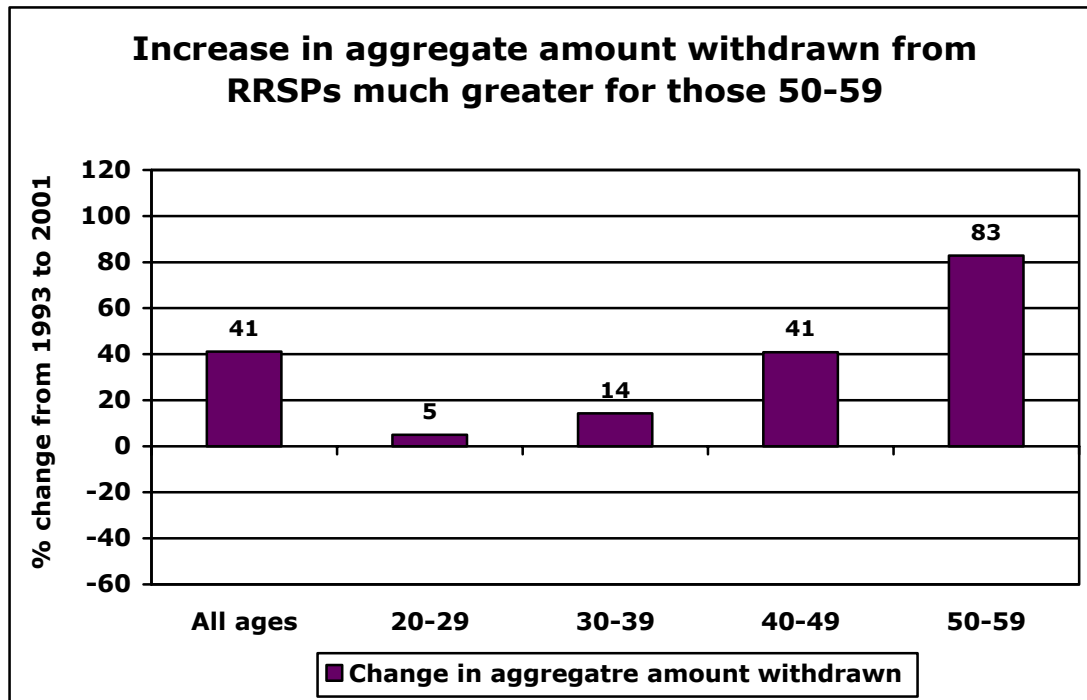


Source: PA/RRSP file, Canada Revenue Agency

What chart shows: Percent change, by age, from 1993 to 2001 in: a) the number of taxfilers withdrawing from their RRSP and b) the median withdrawal.



**Chart 5**



Source: PA/RRSP file, Canada Revenue Agency

What chart shows: Percent change from 1993 to 2001 in total amount withdrawn from RRSPs, by each age group.

**Table 1: Percentage of taxfilers making RRSP withdrawals and contributions from 1993 to 2001**

<b>Income decile</b>	<b>% of taxfilers making an RRSP contribution in at least one year</b>	<b>% of taxfilers making an RRSP withdrawal in at least one year</b>	<b>Withdrawers as % of those known have RRSP (contributed or withdrew from 1993 to 2001)</b>
<b>Total</b>	64.7	26.4	38.9
<b>1</b>	4.3	9.0	75.7
<b>2</b>	14.8	12.1	56.5
<b>3</b>	26.7	15.5	48.5
<b>4</b>	44.1	21.6	44.3
<b>5</b>	60.8	27.8	43.2
<b>6</b>	71.8	31.6	42.3
<b>7</b>	79.7	34.2	41.6
<b>8</b>	85.7	33.8	38.6
<b>9</b>	90.1	31.1	34.1
<b>10</b>	94.9	25.1	26.3

Source: PA/RRSP file

**Table 2: Pattern of RRSP withdrawals and contributions from 1993 to 2001**

<b># years withdrawing</b>	<b># years contributing</b>	<b>Total taxfilers</b>	<b>Percent of total (for years withdrawing)</b>
<b>Total</b>	<b>Total</b>	11,414,400	100.0%
	<b>Zero</b>	4,029,150	35.3%
	<b>One</b>	919,650	8.1%
	<b>Two</b>	756,350	6.6%
	<b>Three-four</b>	1,328,650	11.6%
	<b>Five or more</b>	4,380,600	38.4%
<b>Zero</b>	<b>Total</b>	8,401,350	100.0%
	<b>Zero</b>	3,672,250	43.7%
	<b>One</b>	561,700	6.7%
	<b>Two</b>	429,950	5.1%
	<b>Three-four</b>	741,600	8.8%
	<b>Five or more</b>	2,995,850	35.7%
<b>One</b>	<b>Total</b>	1,561,550	100.0%
	<b>Zero</b>	230,200	14.7%
	<b>One</b>	219,550	14.1%
	<b>Two</b>	175,800	11.3%
	<b>Three-four</b>	282,850	18.1%
	<b>Five or more</b>	653,150	41.8%
<b>Two</b>	<b>Total</b>	694,200	100.0%
	<b>Zero</b>	66,250	9.5%
	<b>One</b>	74,900	10.8%
	<b>Two</b>	82,600	11.9%
	<b>Three-four</b>	148,850	21.4%
	<b>Five or more</b>	321,600	46.3%
<b>Three or more</b>	<b>Total</b>	757,300	100.0%
	<b>Zero</b>	60,450	8.0%
	<b>One</b>	63,500	8.4%
	<b>Two</b>	68,000	9.0%
	<b>Three-four</b>	155,350	20.5%
	<b>Five or more</b>	410,000	54.1%

Source: PA/RRSP file

**Table 3: Pattern of RRSP withdrawals and contributions from 1993 to 2001, by age group**

	<b>Age group (age at end of 1992)</b>				
	<b>Total</b>	<b>20-29</b>	<b>30-39</b>	<b>40-49</b>	<b>50-59</b>
<b>Percent of taxfilers making:</b>					
<b>One or more withdrawals</b>	26.4%	26.3%	27.3%	25.6%	23.8%
<b>One withdrawal</b>	13.7%	14.4%	14.0%	12.7%	11.6%
<b>Two withdrawals</b>	6.1%	5.9%	6.2%	6.2%	5.4%
<b>Three or more withdrawals</b>	6.6%	6.0%	7.1%	6.7%	6.8%
<b>Percent of withdrawers making:</b>					
<b>One withdrawal</b>	51.8%	54.8%	51.2%	49.5%	48.8%
<b>Two withdrawals</b>	23.0%	22.5%	22.8%	24.1%	22.7%
<b>Three or more withdrawals</b>	25.1%	22.7%	26.0%	26.3%	28.5%

Source: PA/RRSP file

**Table 4: Taxfilers contributing to, and withdrawing from, RRSPs, 1993 to 2001**

		<b>Number of persons with RRSP activity ('000)</b>	<b>% of population</b>	<b>Median amount -- 2001 constant dollars</b>	<b>Aggregate amount (millions) -- 2001 constant dollars</b>
<b>Reference year</b>	<b>RRSP activity type</b>				
<b>1993</b>	<b>Withdrawals</b>	570	3.8	\$2,919	\$3,112
	<b>Contributions</b>	4,509	30.4	\$2,297	\$17,131
<b>1994</b>	<b>Withdrawals</b>	620	4.1	\$2,853	\$3,398
	<b>Contributions</b>	4,739	31.3	\$2,441	\$18,796
<b>1995</b>	<b>Withdrawals</b>	743	4.8	\$2,458	\$3,728
	<b>Contributions</b>	5,182	33.8	\$2,572	\$21,557
<b>1996</b>	<b>Withdrawals</b>	805	5.2	\$2,442	\$4,074
	<b>Contributions</b>	5,477	35.4	\$2,748	\$24,496
<b>1997</b>	<b>Withdrawals</b>	863	5.5	\$2,291	\$4,127
	<b>Contributions</b>	5,623	36.0	\$2,704	\$25,078
<b>1998</b>	<b>Withdrawals</b>	929	5.9	\$2,144	\$4,397
	<b>Contributions</b>	5,627	35.7	\$2,579	\$24,272
<b>1999</b>	<b>Withdrawals</b>	939	6.1	\$2,055	\$4,289
	<b>Contributions</b>	5,645	36.6	\$2,660	\$25,223
<b>2000</b>	<b>Withdrawals</b>	1,067	6.6	\$2,051	\$5,228
	<b>Contributions</b>	5,800	35.9	\$2,666	\$26,202
<b>2001</b>	<b>Withdrawals</b>	1,049	6.7	\$1,568	\$4,390
	<b>Contributions</b>	5,657	36.0	\$2,550	\$24,147
<b>Percent change: 1993-2001</b>	<b>Withdrawals</b>	84.0%	76.3%	-46.3%	41.1%
	<b>Contributions</b>	25.5%	18.4%	11.0%	41.0%
<b>Aggregate amount 1993 to 2001</b>	<b>Withdrawals</b>				\$36,743.00
	<b>Contributions</b>				\$206,902.00

Source: PA/RRSP file

**Table 5: Distribution of RRSP withdrawals, by age group, 1993, 1997 and 2001**

Amount of RRSP withdrawal	Age group				
	Total	20 to 29	30 to 39	40 to 49	50 to 59
	% of withdrawers	% of withdrawers	% of withdrawers	% of withdrawers	% of withdrawers
<b>1993</b>					
Less than \$500	8.2	16.2	8.4	6.1	4.7
\$500 to \$999	9.4	17.6	10.0	6.6	6.1
\$1,000 to \$1,999	19.1	26.5	21.7	16.2	13.0
\$2,000 to \$2,999	14.2	14.4	16.0	12.5	13.3
\$3,000 to \$3,999	10.0	8.5	10.6	10.1	10.0
\$4,000 to \$4,999	7.0	5.3	7.1	7.4	7.4
\$5,000 to \$5,999	7.5	3.8	6.8	8.7	9.8
\$6,000 to \$9,999	10.9	5.9	10.2	12.6	14.3
\$10,000 or more	13.8	2.5	9.3	19.9	21.7
<b>1997</b>					
Less than \$500	15.5	25.3	19.7	11.5	7.4
\$500 to \$999	11.2	17.4	12.7	9.1	7.3
\$1,000 to \$1,999	18.8	24.2	19.5	17.3	16.3
\$2,000 to \$2,999	11.8	12.4	12.1	11.4	11.4
\$3,000 to \$3,999	8.2	6.6	8.0	8.9	8.8
\$4,000 to \$4,999	5.9	3.7	5.5	6.2	7.7
\$5,000 to \$5,999	6.4	3.3	5.6	7.6	8.4
\$6,000 to \$9,999	9.7	4.2	8.3	11.6	13.4
\$10,000 or more	12.4	2.5	8.6	16.5	19.8
<b>2001</b>					
Less than \$500	22.7	31.5	30.2	18.9	11.1
\$500 to \$999	13.4	20.8	15.7	11.5	8.0
\$1,000 to \$1,999	17.9	21.2	18.1	17.9	15.7
\$2,000 to \$2,999	9.7	10.6	8.9	10.0	10.2
\$3,000 to \$3,999	6.6	5.2	5.7	7.2	8.2
\$4,000 to \$4,999	6.0	3.7	5.1	6.6	7.6
\$5,000 to \$5,999	4.7	2.0	4.1	4.9	6.9
\$6,000 to \$9,999	8.5	3.9	6.4	9.9	12.9
\$10,000 or more	10.4	1.3	5.9	13.3	19.0

Source: PA/RRSP file

Note: Within each year, columns add to 100%.

**Table 6: Proportion of population with RRSP withdrawals**

Life event	Percent who made RRSP withdrawal and:		Percent difference A/B
	Experienced life event (A)	Did not experience life event (B)	
Separation from spouse - MIE	11.9	9.9	20.2
Separation from spouse - Spouse of MIE	9.7	8.3	16.9
Death of spouse - MIE	31.2	10.0	212.0
Death of spouse - Spouse of MIE	28.3	8.3	241.0
Involuntary job loss - MIE	10.9	9.7	12.4
Involuntary job loss - Spouse of MIE	9.5	9.0	5.6
Return to school full-time - MIE	10.0	9.5	5.3
Return to school full-time - Spouse of MIE	10.9	8.3	31.3
Buy a house - MIE	8.4	7.0	20.0
Birth of a child - MIE	12.9	9.8	31.6
Start a business - MIE	11.5	9.1	26.4

Source: SLID

Note: spouse includes a common-law partner

**Table 7: Proportion of population with RRSP withdrawals of \$10,000 or more, among those with withdrawals**

Life event	Percent of RRSP withdrawers who withdrew \$10,000 or more and:		Percent difference A/B
	Experienced life event (A)	Did not experience life event (B)	
Separation from spouse - MIE	16.0	19.1	-16.2
Separation from spouse - Spouse of MIE	12.0	16.1	-25.5
Death of spouse - MIE	55.2	18.8	193.6
Death of spouse - Spouse of MIE	81.4	15.7	418.5
Involuntary job loss - MIE	29.9	14.5	106.2
Involuntary job loss - Spouse of MIE	20.7	15.8	31.0
Return to school full-time - MIE	16.4	17.1	-4.1
Return to school full-time - Spouse of MIE	8.8	16.2	-45.7
Buy a house - MIE	16.3	11.9	37.0
Birth of a child - MIE	8.1	19.7	-58.9
Start a business - MIE	27.8	15.6	78.2

Source: SLID

Note: spouse includes a common-law partner



## **BOX 1 – CANADA’S RETIREMENT INCOME SYSTEM**

Canada’s retirement income system has three main pillars (HRDC, 2001):

- 1) **Old Age Security (OAS):** OAS is the basic building block of this system and guarantees a minimum income to all persons 65 or older who meet prescribed residency requirements, regardless of work history. The benefit is gradually reduced if net income exceeds a certain amount (about \$55,300 in 2001), and is eliminated altogether when that income reaches about \$90,000. Additional benefits are provided to low-income seniors through the Guaranteed Income Supplement (GIS) and the Allowance. The latter is paid to spouses/partners of OAS pensioners aged 60 to 64. Benefits are paid from the federal government’s consolidated revenue fund; specific contributions to this program are not required.
- 2) **Canada and Québec Pension Plans (C/QPP):** These plans are intended to replace employment earnings. They cover almost all workers in Canada and are compulsory for those 18 and over. Employers and employees contribute to these plans (the self-employed pay both shares) and they provide a benefit equal to about 25% of the average wage (as measured by Statistics Canada’s Survey of Employment, Payroll and Hours), up to a specified maximum. This benefit is paid at 65, although people can opt to receive it as early as 60 or as late as 70.

OAS/GIS and C/QPP are designed to provide a basic income to Canadian seniors. As of January, 2001, a single person 65 years or older, with no other income, would receive an annual benefit from OAS/GIS of about \$11,330; if they were also receiving C/QPP that amount would increase to just under \$16,000. The equivalent amounts for couples (both at least 65) are given in Table A.

In 2001 the median earnings of individuals heading into retirement (aged 45-54) was \$30,842; OAS/GIS and C/QPP would replace about 50% of those earnings (see Table B, which is based on 2001 rates). (This calculation was done assuming people had contributed to the C/QPP for the maximum required years and therefore likely inflates the replacement rate.) For couples with at least one partner aged 45 to 54, median earnings in 2001 were \$64,962; these two programs would replace just over 40% of those earnings. The percentage of earnings required to maintain a similar standard of living in retirement depends on a number of factors, and can vary considerably, depending on the circumstances of the individual or couple. Financial planners often use 70% as a rule of thumb (HRDC, 2001, page 3), although this percentage has certainly been the subject of much debate. The income provided by OAS/GIS and C/QPP would, for many, give them an income replacement rate far below this. This makes the third component of the retirement income system

essential to many.

- 3) **Employer pensions and personal savings:** Employer-sponsored registered pension plans (RPPs) are the most common type of plan used by employers to provide their employees with a source of income in retirement. Employers are not obligated to provide these plans, however, and only about a third of the labour force belong to them. The benefits from these plans vary widely, as there is no single prescribed benefit; it is established independently by each of the plans. Contributions are made to these plans by the employers sponsoring them and, if the plan is contributory, by the employees as well.

Those employees who do not belong to RPPs, and also the self-employed, must save for retirement on their own, if they wish to supplement the income available from OAS/GIS and C/QPP. Registered Retirement Savings Plans (RRSPs) provide the means to do this. In order to encourage Canadians to save, there is a tax incentive: tax is not paid on either the amount contributed to an RRSP (to a prescribed maximum) or on the investment return on these funds. Tax is, however, paid when funds are withdrawn from these plans. Unlike the equivalent program in the United States, no additional penalties are assessed for premature withdrawals.

RRSPs, therefore, are a critical component of the retirement income system, particularly for those people who would not be able to replace a sufficient proportion of their employment earnings with the income from the OAS/GIS and C/QPP. Withdrawing money from an RRSP has disadvantages, both because of the immediate tax implications and the fact that retirement savings have been diminished. This article looks at the extent to which this is happening, and who is more likely to be making these withdrawals.

**Table A** – Maximum monthly and annual benefits from OAS/GIS and C/QPP for persons 65 or older, January, 2001

Program	Maximum benefit	
	Monthly	Annual
Canada/Québec Pension Plan (C/QPP) (at age 65)	\$775	\$9300
Old Age Security (OAS)	\$431	\$5176
Guaranteed Income Supplement (GIS) (single person)	\$513	\$6152
Guaranteed Income Supplement (GIS) (spouse of OAS pensioner)	\$334	\$4007
OAS + GIS (single person) (no other income)		\$11,328
OAS + GIS (couple, both receiving GIS) (no other income)		\$18,367
OAS + C/QPP + GIS, reduced (single person) (no other income)		\$15,978
OAS + C/QPP (couple, both receiving maximum C/QPP; income too high for GIS) (no other income)		\$28,953

**Note:** OAS/GIS annual amounts assumes that the monthly rate in effect in January applies for

Price Index.

**Table B** – Percentage of earnings replaced by OAS/GIS and C/QPP (for unattached individuals, based on rates as of January 1, 2001)

Earnings of individual prior to retirement	OAS (at 65)	GIS (at 65)	C/QPP (at 65)	Total income at 65 from OAS/GIS & C/QPP	% emp. income replaced by OAS/GIS & C/QPP
\$ -	\$ 5,176.32	\$ 6,151.80	\$ -	\$ 11,328.12	
\$ 5,000.00	\$ 5,176.32	\$ 5,526.80	\$ 1,250.00	\$ 11,953.12	239
\$ 10,000.00	\$ 5,176.32	\$ 4,901.80	\$ 2,500.00	\$ 12,578.12	126
\$ 15,000.00	\$ 5,176.32	\$ 4,276.80	\$ 3,750.00	\$ 13,203.12	88
\$ 20,000.00	\$ 5,176.32	\$ 3,651.80	\$ 5,000.00	\$ 13,828.12	69
\$ 25,000.00	\$ 5,176.32	\$ 3,026.80	\$ 6,250.00	\$ 14,453.12	58
\$ 30,000.00	\$ 5,176.32	\$ 2,401.80	\$ 7,500.00	\$ 15,078.12	50
\$ 35,000.00	\$ 5,176.32	\$ 1,776.80	\$ 8,750.00	\$ 15,703.12	45
\$ 40,000.00	\$ 5,176.32	\$ 1,501.80	\$ 9,300.00	\$ 15,978.12	40

OAS – assumes residency requirements met.

C/QPP – assumes contributions made for maximum required period.

## **BOX 2 – DATA SOURCES USED FOR THIS ANALYSIS**

Two sources of information were used for this analysis:

### **1) Pension adjustment/registered retirement savings plan (PA/RRSP) file**

The PA/RRSP file was created by Statistics Canada from information provided by the Canada Revenue Agency. It is a longitudinal file that contains, for every taxfiler, basic demographic information and information about their participation in RPPs and RRSPs (contributions and withdrawals, for the latter). The file provides the only source of longitudinal information on savings for retirement through these two programs. For this analysis, information for the years 1993 to 2001 has been used.

### **2) Survey of Labour and Income Dynamics (SLID)**

The Survey of Labour and Income Dynamics (SLID) is a longitudinal household survey conducted by Statistics Canada. It is designed to capture changes in the economic well-being of individuals and families over time and the determinants of their well-being. Individuals originally selected for the survey are interviewed each year for six years, to collect information about their labour market experiences, income and family circumstances. The first reference year of the survey was 1993. A second six-year panel of respondents was introduced for 1996, halfway through the life span of the first. When the first panel ended, a third one began for reference year 1999. This pattern of rotating, overlapping panels will continue thereafter, with a new panel being selected every three years. For each panel, the sample numbers approximately 15,000 households, comprising about 31,000 adults aged 16 years and over.

### **BOX 3 – WHO IS INCLUDED?**

This analysis focuses on the population 20 to 59 years of age, those people most likely to be receiving employment income, and therefore eligible to contribute to RRSPs. Many of those under 20 are still in school and many over 54 already retired. (Information from SLID for the year 2001 indicates that only about one-third of those 16 to 20, and 13% of those over 59 report their major activity as working or looking for work.) Including those ages could distort the data. The population aged 20 to 59 was further refined by excluding anyone with pension income (from OAS/GIS, C/QPP, RRSPs and RPPs). An income tax return (T1 return) must have been filed in 1993 and 2001 but could have been missing in some of the intervening years. If so, income, RRSP contributions and RRSP withdrawals were assumed to be zero.

For those tables covering the entire period 1993 to 2001 age was determined as of the end of 1992. For those tables with information for each year, age was determined as of the end of the year in question.

Because SLID excludes the Canadian territories, they were also excluded from the population used in the PA/RRSP file.

#### **BOX 4 - TECHNICAL NOTE ON LIFE EVENTS**

This note explains the methodology used for this analysis as well as specific definitions employed.

Three years of data were used for these analyses. Every possible series of three years between 1993 and 2001 were used (there are seven, starting with 1993 to 1995 and ending with 1999 to 2001). The results for each of these seven periods were then aggregated.

The population at risk was identified according to the situation at the end of the first year of the three-year period. In the definition of the population at risk, it would have been desirable to have included the criterion that the person had money deposited in an RRSP account, but this information was not collected by the survey.

For purposes of this analysis, the life event would have occurred in the second year of the three-year period and the RRSP withdrawal would have taken place during one of the last two years of the period.

The analysis focussed only on those who were the major income earner (MIE) of the economic family at the end of the first year, and their spouses. Note that in all cases, spouse is defined as a legally-married partner or a common-law partner. Only MIEs aged 20 to 59 were included, to reduce the impact of retirements on the results. The RRSP withdrawal, if any, was for the individual, in this case either the MIE or the spouse/partner, as indicated. Further analysis could be done to take into account RRSP withdrawals by either the MIE or the spouse following these life events.

*Life event: Separation from a spouse*

Population at risk: Persons living with a spouse; the analysis was done separately for the MIE and the spouse of the MIE.

Definition of event: Couple were living together at the end of the first year but not at the end of the second year.

*Life event: Death of a spouse*

Population at risk: Persons living with a spouse; the analysis was done separately for the MIE and the spouse of the MIE.

Definition of event: Couple were living together at the end of the first year but one of them died during the second year.

*Life event: Involuntary loss of job*

Population at risk: Persons with a job; the analysis was done separately for the MIE (both those with and without a spouse) and the spouse of the MIE, when there is one.

Definition of event: Person had a job at the end of the first year but had an involuntary end of job (i.e., did not quit the job) during the second year. At

the time of the job loss, it was the person's main job.

*Life event: Return to school full-time*

Population at risk: Persons who were not full-time students; the analysis was done separately for the MIE (both those with and without a spouse) and the spouse of the MIE, when there is one.

Definition of event: Person was not a full-time student during the first year but became a full-time student during the second year.

RRSP withdrawal: The use of RRSP funds as part of the Lifelong Learning Plan (LLP) was excluded as this is a feature of the RRSP program. The LLP allows withdrawals of up to \$20,000 from RRSPs to finance training/education. There is no tax penalty, as long as the money is returned to the RRSP within a prescribed period of time.

*Life event: Buying a house*

Population at risk: Persons who did not own their dwelling. This analysis was restricted to MIEs only since the spouse would have the same life event experience as the MIE.

Definition of event: Person did not own the dwelling in which he/she lived at the end of the first year but did at the end of the second year.

RRSP withdrawal: The use of RRSP funds as part of the Home Buyers Plan (HBP) was excluded as this is a feature of the RRSP program. The HBP plan allows first-time home buyers to withdraw up to \$20,000 from their RRSP for the purchase of a home, with no tax penalty, as long as they return the money to their RRSP within a prescribed period of time.

*Life event: Birth of a child*

Population at risk: Persons living with a spouse. This analysis was restricted to MIEs only since the spouse would have the same life event experience as the MIE.

Definition of event: Couple had a birth or adopted a child during the second year.

*Life event: Starting a business*

Population at risk: No extra restrictions were placed on this population. This analysis was restricted to MIEs only since, in many situations, the spouse would have the same life event experience as the MIE.

Definition of event: Person started a job that was self-employed during the second year.

<b>ACRONYMS</b>	
C/QPP	Canada and Québec Pension Plans
GIS	Guaranteed Income Supplement
HBP	Home Buyers Plan
LLP	Lifelong Learning Plan
MIE	Major income earner
OAS	Old Age Security
PA/RRSP	Pension adjustment/registered retirement savings plan
RPP	Registered pension plans
RRSP	Registered Retirement Savings Plans
SLID	Survey of Labour and Income Dynamics



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