Equitable Tax Treatment For Individual Retirement Savings

Canadians have three main sources of potential retirement income:

- Government sponsored and administered plans such as CPP/QPP, OAC, GIS,
- Pension plans linked to, and earned during their employment careers, and
- Individual savings, both inside and outside registered plans.

Economic circumstances have affected employment-based pension plans such that, in the private sector, defined benefit plans are no longer available or sustainable. Those working for small companies or operating their own small- or medium-sized enterprises may have no pension options at all.

Both as individuals and collectively as a country, we face severe long term consequences resulting from inadequate saving for retirement. Seniors in poverty will negatively impact all levels of society and government across almost every sector of daily life and economic activity.

Resulting social tensions will be exacerbated by wide retirement income gaps between those with public-funded and indexed and/or defined benefit pensions and those individuals who, for a variety of reasons, many beyond their control, must make do with severely reduced retirement income resulting from limited savings options, inequitable tax treatment and broken pension promises.

- There is a widening consensus that, fewer than a third of Canadians will retire with adequate financial resources to maintain a lifestyle comparable to their working years.
- The recession of 2008-2009 and the market turmoil that triggered it have combined to significantly reduce the value of a broad range of Canadians' retirement nest-eggs: defined contribution pensions, individual and group RRSPs as well as supplementary non-RSP savings and investments. The time needed to recover these values will likely exceed that available to those already close to retirement age.
- There is an ever-widening gap between public-sector, taxpayer-funded pensions, and those retirement saving options that remain feasible and sustainable for employees and entrepreneurs in the private sector. Current tax rules and limits serve only to magnify the gap with each passing year.

It is possible to alleviate these trends with a series of retirement-related tax reforms that will neither significantly reduce short-term tax revenues nor take anything away from those already enrolled in public sector pension plans. The recommendations below simply represent increased opportunities for private sector Canadians to save more for their own retirement and, upon retirement, to receive equitable tax treatment for their accumulated savings.

Recommendations

That the federal government make it easier for individuals to save more from their own resources for retirement by:

1. Raising the RRSP contribution limit from 18 percent of earned income to a level equivalent to that used for the federal Public Service Plan [34 percent].
2. Raising the maximum annual RRSP contribution amount accordingly from $22,000 to $42,000.
3. Offering a full tax credit of $5,000 on the first $5,000 contributed in any year to a cumulative total of $25,000 for Canadians with household incomes below $80,000 per year.
4. Adjusting the rules for group RRSPs [practical for employees in small groups] to allow deduction of specified administrative expenses incurred in the course of generating outside income [make such rules more equivalent to those for large pension plans].

5. Raising the age limit [but not requirement] for continued contributions into tax-deferred savings plans and conversion to plans with mandatory pay-out provisions [currently age 71].

6. Increase the annual Tax Free Savings Account (TFSA) threshold from $5,000 to $10,000 per year.

And treat withdrawals and payouts from individuals own accumulated retirement savings similar to pension income by:

7. Making the pension credit available to persons with RRIF or LIF income regardless of age [the same as for annuities from pension plans].

8. Giving RRIF/LIF income recipients the same spousal income-splitting opportunities as for annuities from pension plans.