Investment Industry Association of Canada Association canadienne du commerce des valeurs mobilières

March 1, 2023

Submitted via email

Yves Poirier
Director, Savings and Investment
Personal Income Tax Division
Finance Canada

Dear Mr. Poirier:

Re: Department of Finance Canada Registered Retirement Income Funds (RRIFs) Study

The Investment Industry Association of Canada (IIAC) is the national association representing investment firms that provide products and services to Canadian retail and institutional investors. In 2021, Canada's securities industry managed $193 billion in RRIFs on behalf of Canadians, helping them prepare for their retirement. We welcome the opportunity to contribute to the Department of Finance study focused on Registered Retirement Income Funds (RRIFs), including structure and rates, and population aging.

A. Recommendations

The IIAC recommends that the federal government gradually:

1) Raise the age at which contributions to tax-deferred retirement saving vehicles must end and which RRIF withdrawals must start.

2) Reduce the RRIF annual withdrawal rates mandated for each age, with the goal of abolishing mandatory withdrawals entirely.

B. Basis for Recommendations

The reasons for these recommendations are as follows:

i) The Demographics

As the 2021 Census indicated, the number of people nearing retirement in Canada – more than 1 in 5 (21.8%) – is at an all-time high, and one of the factors behind the labour shortages facing some industries across the country. From 2016 to 2021, the number of persons aged 65 and older rose 18.3% to 7.0 million, representing 19% of Canada's population, up from 16.9% in 2016.

The ratio of seniors (aged 65 and over) to the working-age population (those aged 20 to 64) is projected to rise rapidly – from 31.2% in 2021 to 36.2% in 2025 and 44.9% in 2050 (OECD data).

ii) The Economic Impact of the Demographics

The rise in the senior dependency ratio will put pressures on future economic growth, savings, consumption, taxation, and pensions. It highlights the need to do more to ensure older workers can continue to participate in the workforce. Many older Canadians have the potential to do so, given the increase in life expectancy and better health outcomes. Others need to work for financial reasons, and to stay physically and mentally active.

iii) Harm Caused by Status Quo

It's time to change the tax rules that require individuals in the year they turn 71 to transfer their RRSP assets into RRIFs, and the RRIF rules which force individuals to make mandatory annual minimum withdrawals whether they need the income or not. The existing rules date back to 1992 when interest rates were higher and seniors were not living as long. Today, it's unlikely real returns on safe investments will keep pace with the withdrawals. Seniors have a higher chance of outliving their savings.

Unnecessary RRIF payments may even trigger clawbacks in retirement income support programs such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and provincial supplements, causing some seniors to forfeit some or all of the government benefits they might otherwise have received.

To the extent that annual RRIF withdrawals, when combined with employment earning, move the recipient into a higher income tax bracket, it discourages employment. This, in turn, makes it more difficult for Canadians to replenish their savings after age 71.

C. The Benefits of Proposed Solutions

Canadians will not have to deplete their savings prematurely. Rather, they will have the freedom and flexibility to manage their savings according to their individual circumstances and in the most tax-efficient manner. Importantly, our solutions will eliminate a barrier to the continued labour force participation of older workers.

D. Fiscal Impact

The negative fiscal impact of reducing the RRIF annual withdrawal rates mandated for each age will be small on a present-value basis. Eliminating the annual minimum mandatory withdrawals entirely would simply delay the governments' receipt of tax revenue (since RRIF withdrawals are considered taxable income) to either when the RRIF holder voluntarily takes out savings, or when the individual dies.

The IIAC appreciates your consideration of our recommendations. If you have questions or would like to discuss further, please do not hesitate to contact me.

Sincerely,

Laura Paglia

Laura Paglia
President & Chief Executive Office