Registered Savings Plans Can Ease Administration, Support Prosperity, Retirement and Lifelong Learning

Issue

An improved RRSP savings system would encourage Canadians to save, improve access to capital, and better prepare Canadians for their futures.

Background

With the economic downturn and resulting depressed values of Canadians' investment plans, it is now more important than ever for Canadians to review the funding of their retirement and other savings needs. Since the introduction of the Registered Retirement Savings Plan (RRSP), the government has been encouraging Canadians to save for their futures.

Enhancements to RRSPs, including the Home Buyers Plan and Life Long Learning Plan have expanded the use of RRSPs. New plans such as Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSP), and Tax-free Savings Accounts (TFSAs) have been developed to help Canadians fund other needs such as education, care for the disabled and for other uses.

With an aging population and reducing personal income tax base, the funding of an individual's retirement and social services is becoming more of a responsibility of Canada's employers – the business owner. Each of these existing plans comes with its own rules and complexities. They are costly to offer to administer, costly to offer to employees and are unfortunately not used to their full potential.

Streamlining and simplifying the various savings plans registered with the Canada Revenue Agency (CRA) will encourage more Canadians to save and more employers to assist their employees in establishing savings plans. Building upon the base of the current infrastructure of the CRA and financial intermediaries, the current RRSP could be refined and redefined to allow a true lifetime savings vehicle.

Taking the best of the RRSP and combining it with the best of the existing programs would give Canadians a flexible and cost-effective lifestyle funding mechanism. Tax deductible contribution limits, partially tax-free and tax-deferred qualifying withdrawals would encourage Canadians to self-fund many of the cash needs that currently are paid through ad hoc government programs, tax credits and grants

The refined Registered Savings Plan would complement currently established limits, grants, bonds and qualifying tax-deferred withdrawals with permitted withdrawals for:

1. Home purchases
2. Home renovations
3. Childcare
4. Temporary loss of employment

5. Disability

It would also provide a complete restoration of contribution limits after withdrawal and defined repayment schedules that would encourage a broader use in all income brackets.

Fully indexed tax-deductible contributions of 20 per cent of earned income up to the top tax bracket, with matching grants for non-deductible contributions earmarked for education and disability care, tax-free withdrawals of contributed capital, and tax-deferred withdrawals of growth for qualified purposes will allow the funding of various expenses throughout a Canadian's lifetime.

There is no question that this streamlining process would represent challenges, but it is clear that the ultimate benefits of such an outcome, such as a reduction of government overhead costs and an increase in ease and appeal for the saving consumer, would far outweigh any difficulties associated with implementation.

The Alberta Chambers of Commerce recommends that the Government of Canada:

1. Encourage Canadians to maintain a "culture of savings" through refining registered savings plans.
2. Restore Tax Free Savings Account annual contribution limits to 2015 levels.