British
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Public
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Committee

c/o Craig P. Aspinall
Public Relations Consultant

1226 Homer Street
Vancouver, B.C. V6B 2Y5
(604) 682-6301

Information Bulletin #9

Subject: TAX DEDUCTION PROPOSALS FOR RRSPs

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The B.C. Life Insurance Public Relations Committee is a joint committee of the Canadian Life and Health Insurance Association, representing 123 member companies; the Life Underwriters Association of Canada, with 20,000 members; and the Life Insurance Managers' Association of Canada.

Proposed federal tax changes aimed at stimulating the growth of registered retirement savings plans (RRSPs) would have a negative impact on employee pension plans and are inconsistent with other proposals for pension reform, according to the Canadian Life and Health Insurance Association (CLHIA).

CLHIA's position is contained in a brief to the Minister of Finance commenting on Ottawa's "Action Plan for Pension Reform," released with the federal budget of February 15, 1984. A key recommendation of the federal paper is one which would make the tax deduction limit of RRSPs equal to that of registered employee pension plans.

Although under the income tax act RRSPs are a retirement savings device for **individuals**, employers have been setting up systems which permit the group purchase of RRSPs. Such group purchases lower the fees involved in RRSP openings and closures while making the task of setting them up much easier. Employers see them as an alternative to the expensive and time-consuming reporting and recording required for registered employee pension plans. As a result, small- and medium-sized employers are turning to RRSPs in greater numbers. Larger employers are also using RRSPs along with smaller non-contributory pension plans to provide employee retirement benefits.

Increasing the tax deduction limits of RRSPs will not create equality with pension plans but will only serve to increase an inequality which is already shifting funds from pensions to RRSPs, says CLHIA.

This shift is taking retirement savings farther away from the course which appeared to have been chosen during the pension reform debate of recent years. That course would have seen:

* A higher percentage of Canada's work force covered by pension plans.
* Pension incomes improved in relation to pre-retirement incomes.
* The locking-in of pension contributions.
* Survivor benefits for pensioners' dependents.
* Inflation protection for pension benefits.

RRSPs won't achieve these objectives, says CLHIA. Their growing share of the retirement savings market will reduce the number of employees covered by pensions, reduce the ability of pension plan trustees to improve benefits, and allow withdrawal of contributions before retirement. The early withdrawal of contributions presents two problems:

1. The savings won't be available to provide retirement income for a substantial number of RRSP purchasers because the funds will be withdrawn for pre-retirement expenditures.

2. RRSPs are not long term investments but are generally short term guaranteed vehicles. Pension plans provide significantly more equity and long term investments than RRSPs. The loss of those long term investments is not in the best interests of Canada. Such funds would have to be replaced by foreign capital, further reducing Canadian control and ownership in the national economy.

As alternatives to further enhancing the attractiveness of RRSPs at the expense of pension funds, CLHIA presented the following recommendations:

1. Allow self-employed persons, partners and proprietors of unincorporated businesses to deduct their pension contributions from taxable income.

2. Simplify registering and reporting functions for pension plans - even to the point that pension plans could be set up for a single individual.

3. Increase the limit of annual tax-deductible contributions by an employee to a pension plan to $5,500 for current service.

4. Increase the limit an employer can contribute on an employee's behalf each year from the current $3,500 to $10,000 in a series of increases phased in over five years.

5. No change to the current limits on defined benefits plans which allow employers to contribute as much as is necessary to provide the benefits provided by the plan.

6. RRSPs would be limited to tax deductible contributions of 20% of income to a maximum of $5,500 per year. The present limit of $3,500 for those entitled to benefits under a pension plan would be discontinued. Instead, the taxpayer's contributions to a registered pension plan would be subtracted from the 20% or $5,500 maximum limit to establish contribution levels.

7. All of the contribution limits would be increased according to rises in the average industrial wage.

8. No new pensions plans should be registered unless contributions are locked in.

9. As at present, employer contributions to RRSPs should not be permitted.

Employee pension funds play an important role in the welfare of Canadians by providing retirement incomes and investment capital that is Canadian-owned. These plans must retain their place in the retirement savings market.