Intelligence MEMOS

From: Alexandre Laurin and William B. P. Robson

To: Finance Minister Bill Morneau

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Re: **Crisis Relief for Canadian Savers**

Plummeting stock markets are aggravating anxiety and the potential economic impact of COVID-19. The market crash is worst for older Canadians who rely on savings in registered retirement saving plans (RRSPs) and defined-contribution pension plans, and who are drawing down savings in registered retirement income funds (RRIFs).

Many will now want to save more. So, at the very least, they should not face tax rules that force them to sell when the market is down, permanently lowering their prospects for retirement.

You can help.

Step one is to give retirees a break on mandatory RRIF withdrawals. The current schedule, starting at 5.28 percent of the RRIF's market value as of December 31 of the previous year at age 71, and steadily rising thereafter, was already out of date. Life expectancy is up, yields on safe investments were low and just went lower, and too many seniors risk **depleting their tax-deferred saving**. Withdrawals for 2020 will be calculated from pre-crash values, which will force drawdowns at a terrible time.

The federal government responded to the 2008/09 crisis with a temporary cut in mandatory RRIF withdrawals. Now would be a good time to suspend them entirely. If permanent elimination is too radical a step, you should simultaneously announce a subsequent **one-percentage-point reduction** of minimum withdrawals mandated for each age. Retirees will breathe a sigh of relief in the present, and be better off from now on.

Step two is to raise the age at which Canadians must stop contributing to, and start drawing down, tax-deferred saving. The current age of 71 is, like mandatory RRIF withdrawals, **already out of date**: it discourages Canadians who would like to work and/or save longer, and increases the likelihood that retirees will exhaust their savings in these accounts.

For people close to that age, the market crash is a particular disaster. They may want to work and save longer. You should let them. Raising the age to 73 immediately would alleviate anxiety – and get us to a better place long-term.

A complementary third step would be to raise limits on tax-deferred saving in defined-contribution pension plans and RRSPs for all participants. Those limits are also badly out of date. They presume that the cost of providing a dollar of income in these plans is nine times the rate at which benefits accrue in a typical defined-benefit pension plan. But increases in life expectancy and lower yields on safe investments have dramatically increased the cost of providing a dollar of income in retirement. A **more realistic equivalency measure would now be around 15**, which would raise the limit for contributions to these plans from the current 18 percent to 30 percent of income.

That recommendation will grate on people who see tax-deferred saving as a perk for the rich. So it is worth mentioning that the defined-benefit pension plans enjoyed by members of Parliament and other federal employees involve much more tax-deferred saving than that. And being tax-backed, those plans automatically protect their participants from market crashes or anything else that might threaten their lifetime incomes. Mandatory drawdowns and age-related dollar limits on saving do not affect them. These are measures to help everyone else.

One final point in favour of these moves is that they fit perfectly in a framework of responding to the crisis with decisive moves that do not threaten the government's long-term fiscal framework. The taxes deferred in RRIFs, RRSPs and pension plans are just that: deferred. Money the government does not collect in 2020 will be due in 2021 and beyond. The fiscal stimulus is temporary. The relief to seniors would be immediate.

The market crash threatens to exacerbate the distress and economic damage from COVID-19. Older Canadians are hurting. You can help.

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