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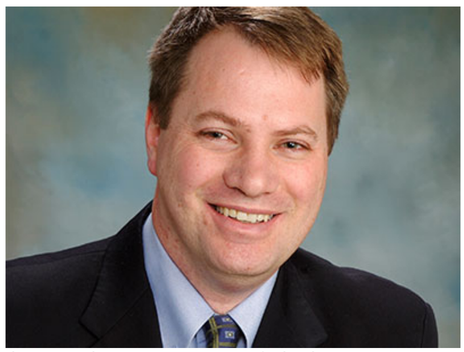
We can help people afford to save for retirement

By: Charles Cirtwill



Charles Cirtwill, President & CEO, Northern Policy Institute.

Like many other Ontarians, I have been following the debate about the introduction of our very own provincial pension plan with some interest. The latest reasoning put forward in support of the plan has me truly perplexed. As the argument goes, people can't afford to save for retirement so we must force them to do so. It seems we have decided that it is more important that someone be able to purchase groceries 40 years from now when they are 65 than it is for them to be able to purchase groceries today when they are 25.

I will need a bit more convincing on this one. If someone truly can't afford to do something, how is it in their best interest for us to force them to do it anyway?

More to the point, if the issue really is that many people can't afford to save for retirement, a better solution exists. Rather than taking money from them and making their current situation worse, we can arrange to increase their income and require them to use this new money for our desired goal of forced increases in savings. They are no worse off today, and considerably better off tomorrow (as are we, the taxpayers, who have a smaller bill to foot down the road).

We can achieve an increase in savings without taking food out of children's mouths or forcing people to shut off the heat in mid-February in order to make their ORPP (Ontario Retirement Pension Plan) contribution. We can achieve an increase in savings without making it more expensive for someone to create a job or expand their company. (The ORPP will charge employers about 2 per cent extra for every employee they already have plus any new employee they add in the future.)

In 2011, Harry Koza, a senior analyst for Canadian markets at Thomson Reuters' IFR markets, wrote a short commentary outlining the multiple global examples of alternatives to forced pension contributions.

He also provided his own list of creative ideas that would be low cost for the government to administer and high value for the taxpayer in both the short and the long terms.

One of those ideas was to allow people who could not afford to use their RRSP room to sell some of it to those who could afford to use it, allowing both people to increase their RRSP contributions. At the time of Koza's original piece, there was circa $600 billion in unused RRSP space. That figure has now grown to about $800 billion, some $300 billion here in Ontario alone. Let me explain how we could put that unused room to work.

Consider Tim, a retail clerk, earning $30,000 a year. Over the course of 10 years maybe, he accumulates $10,000 in usable RRSP room. But between his three kids and his apartment rent and grocery costs, there is no money left at the end of the year for increased savings (note — all these numbers are fictional and rounded for simplicity's sake).

Tina, the regional VP of the retail chain Tim works for, makes about $200k a year. She maximizes her $5k in RRSP allowance every year and would love to be able to set more aside to grow tax free. So, why don't we let Tina buy some of Tim's unused RRSP room and require Tim to use the proceeds of that sale to invest in his own RRSP?

Say we allow him to sell her half and she pays him 50 per cent of the face value — or $2,500. Note: she may pay more for it, if the market for RRSP space is strong, or less if the demand is weak. In any case, Tim has money he did not have before and everyone sets aside more cash in their RRSP savings.

In our current example, Tim now has $2,500 to invest in his RRSP and he also has the additional immediate disposable income from the tax savings created by the RRSP contribution (a few hundred extra bucks for necessities). Tina gets another $5k in tax-free investments that will grow over time and, with reasonable certainty, more than pay back her original investment (recall, she puts out $7,500 – the $2,500 she gave to Tim and the $5k she actually saves in her RRSP).

We have added savings on both fronts — Tina and Tim — and we have a small increase to Tim's immediate disposable income. All of this at NO COST to Tim, or to his employer. Contrast that with the ORPP which forces Tim, whether his daughter needs braces or not, to spend roughly 2 per cent of his income on a new savings plan.

Which approach makes more sense to you?