Income Tax Act

It is worth recalling for a moment or two what the RRSP is all about. When originally conceived about 20 years ago the plan was designed to provide the self-employed person—the small business operator, the doctor, the garage owner, the lawyer—with an advantage already within reach of the salaried worker and the daily wage earner, namely, a tax exempt reduction in take home pay in order to build up a pension fund that could be drawn on upon retirement. Self-employed entrepreneurs were unable at that time to make provision for their retiring years and get a tax benefit as well. The RRSP provided that facility.

Over the years the emphasis on RRSPs seems to have shifted somewhat, just as the principle underlying the unemployment insurance scheme has shifted under this government. Whereas unemployment insurance was originally devised as an insurance to provide against the day when a salaried worker or daily wage earner found he was temporarily out of work, it has since become a means of collecting welfare entitlements that contributors are more and more coming to feel are their due. Having paid, they have to collect, just as the man who has paid fire insurance on his house for, say, 20 years decides in the 21st year that he is going to get his money back and sets fire to his house.

Something of the same sort has happened to the RRSP facility. Whereas it was originally designed as a pension planning scheme—a temporary relief from income tax on the funds being put aside—it is now tending to become a tax shelter with an incidental pension benefit. Everybody is getting into the act because the tax shelter benefit is there, even those who already have pension plans prepared for them by their employers under salary or wage deduction schemes.

● (2032)

The reasons for this shift from the pension scheme idea to the tax shelter notion are easy enough to understand. First of all, inflation has gripped most of us with its long entwining finger and threatens to throttle us, meaning fear for economic security in the years ahead which in turn dictates additional pension revenue than that provided by employers. Furthermore, the income tax cut by the government has been biting deeper and deeper into current income. So why not run for the nearest tax shelter, that of the RRSP?

RRSPs have become a way of saving for the future as well as saving oneself from the full burden of current taxes, with special emphasis on the latter advantage.

In his budget provisions in April the Minister of Finance responded in a sort of way to many of the representations that had been made to him to broaden the options open to the owner of an RRSP. These representations, so far as I can make out, were made by individuals but also by trust companies who, until that time, were unable to retain the use of the RRSP funds that may have drifted their way during the savings period of a working man's life. All annuities up until now had to be provided by the insurance companies. Individuals could save in a trust company but when it came time to roll that money over into an annuity, it had to go into an insurance company. The April budget now opens the door for a type of annuity payment that can be handled by trust companies who will in future be offering competition to the insurance companies. I am assured by those to whom I have spoken that the insurance companies welcome this particular competition.

This broadening of the investment horizons comes about largely because of a new vehicle proposed in the budget that may be used by the retiree any time between age 60 and 71. This is the RRIF, the registered retirement income fund, into which the RRSP owner may roll his savings.

The options now open to the RRSP owner are as follows: Firstly, he may cash in his RRSP and meet his income tax obligations at one fell swoop if he wants to. That is option number one and it is not new.

Secondly, he may buy an annuity for life, a straight life annuity, or a term certain, say a 15-year or 20-year annuity. These he must still buy through an insurance company. That is option number two and it is not new.

Thirdly, he may buy an annuity equal to the number of years remaining between the age when he buys it and age 90. For example, if he buys it at age 60 he buys a 30-year fixed term annuity and it will be paid for as long as the annuitant lives. It will be paid certainly for 30 years, and if he should die, then it expires. That is option number three which extends the fixed term feature of annuities and it is new.

Fourthly, he may roll over his RRSP into a registered retirement investment fund which he himself can manage, if he so desires, or which he can have managed for him by any trust company, even the one in which he had invested the RRSP. The payments from that fund may be drawn down annually until age 90 in quantities determined in the law. It is an ingenious scheme that gradually works up in such a way to a good deal more at the end than at the beginning and finally sees the total extinction of the fund in the pensioner's 90th year. That is option number four and it is totally new.

One thing worth nothing about these options is that whichever option is selected it cannot be acted upon before the age of 60 and must be acted on by age 71. Comments on these limitations would appear to be in order. There is a third age at issue here and that is the age of 90 which deserves some comment.

In connection with age 60 the following remarks are warranted. Why is it not possible to get the RRSP, without loss, before 60 with the same options? Suppose a self-employed entrepreneur, the owner of a plumbing fitments business or of a garage, or a doctor or a lawyer, wants to retire at 55, or even 50 if he has made a good thing of it. Perhaps an individual has had an illness and had to retire earlier than age 60. If he has been laying RRSPs aside regularly during his working life, why should he be denied access to them except under penalty—that is, with some considerable loss? Is it because public servants who have devised these schemes are unwilling to see anyone retire before they do and set age 60 down as the earliest age at which contributors may gain access to their funds?