



**Office of the Leader of the Opposition
Bureau du Chef de l'opposition**

BACKGROUND

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Helping Canadians Save for the Future: A Registered Lifetime Savings Plan

In 2003, Canada's household savings rate fell to an all-time low of 1.3% of household income. In recent years, for the first time, Canadians are saving less than our American neighbours. Low household savings mean less money to invest in the economy, and less money that will be available for Canadian families down the road for retirement or post-secondary education.

The Registered Retirement Savings Plan (RRSP) is a very popular retirement savings and investment vehicle for many Canadians. But one of its limitations is that, while putting money into an RRSP allows Canadians to defer taxes when they contribute, they can end up facing even higher tax rates when they withdraw their investments upon retirement – and even face having old age security benefits being clawed back. Economists have calculated that for many low- and middle-income Canadians and families, there is little benefit to saving money through RRSPs.

One suggestion to encourage increased retirement savings is to create an alternative registered savings plan that would be a mirror image of the existing RRSP. Instead of deferring taxes at the time of contribution and paying taxes upon withdrawal, such a plan would be tax-prepaid. Canadians would deposit after-tax dollars into the new savings vehicle, but withdrawals upon retirement (or for other major expenses such as purchasing a home or paying university tuition) would be tax-free, regardless of how much the investment had appreciated.

The Conservative Party proposes to introduce such a tax-prepaid savings vehicle, which we would call the Registered Lifetime Savings Plan (RLSP).

The RLSP would be particularly beneficial for low- and middle-income Canadians who often face higher tax rates in retirement than they did in their earlier years of earning and saving. This would encourage low- and middle-income earners to save more for their retirement, and to achieve better returns on their investment than the current RRSP program makes possible.

The RLSP would also allow Canadians to save for things they need before retirement. It would allow young Canadians to put money aside for purchasing a house. It would allow Canadians to save money for education or skills training – facilitating lifelong learning – whether for themselves or for their children.

Many economists have recommended the creation of a tax-prepaid retirement savings vehicle, including the C.D. Howe Institute in 2001. In the 2003 federal budget, the Liberals said that a tax-prepaid savings option should be “studied”, but this proposal was never followed up by the Martin government.

A Conservative government will create a Registered Lifetime Savings Plan. Canadians will be able to contribute up to \$5000.00 per year into investments as part of this registered plan, which will be tax-free upon withdrawal.

Withdrawn RLSP savings will not be taxed, and will not be counted as income for means-tested old age benefits programs.

The RLSP will not impose any direct costs on the treasury. Loss of capital gains revenue in future years will be offset by lowering the cost of the tax deferrals under the RRSP program as Canadians adjust their savings mix between the two vehicles.