

Costing Note

Publication date:	2020-11-19															
Short title:	Eliminating the Registered Retirement Income Fund (RRIF) minimum withdrawal amount															
Description:	<p>Mr. McCauley, MP, requested the PBO to cost the elimination of the annual RRIF minimum-withdrawal amount.¹ As a result, RRIF holders would withdraw less, thereby reducing government revenues, as RRIF withdrawals are considered taxable income.</p> <p>PBO has assumed that the annual minimum-withdrawal amounts will remain the threshold for determining whether RRIF withdrawals are subject to tax withheld at the source, in accordance with current rules.</p> <p>PBO has assumed the policy would take effect on January 1, 2021.</p>															
Data sources:	<table><tr><th><u>Variable</u></th><th><u>Source</u></th></tr><tr><td>RRIF withdrawal, by age group</td><td>Canada Revenue Agency (CRA)</td></tr><tr><td>Microdata on Canadians' financial assets</td><td>2016 Survey of Financial Security (SFS)</td></tr><tr><td>Demographic data</td><td>SFS</td></tr><tr><td>Population projections</td><td>Statistics Canada</td></tr><tr><td>Tax rate</td><td>SPSD/M 28.0²</td></tr><tr><td>Economic projections</td><td>PBO</td></tr></table>	<u>Variable</u>	<u>Source</u>	RRIF withdrawal, by age group	Canada Revenue Agency (CRA)	Microdata on Canadians' financial assets	2016 Survey of Financial Security (SFS)	Demographic data	SFS	Population projections	Statistics Canada	Tax rate	SPSD/M 28.0 ²	Economic projections	PBO	
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Estimation and projection method:	<p>PBO used data from the CRA and the SFS to estimate the number of individuals who would change their behaviour if this measure were implemented, and to what extent their behaviour would change. PBO assumed that this measure would affect only those aged 71 and over, as that is the age at which RRSPs must be converted to RRIFs.</p> <p>PBO developed a model that estimates, for each individual in question, the difference in the amount they would withdraw from a RRIF both before and after the hypothetical implementation of this measure. This difference was multiplied by a tax rate calculated using SPSPD/M 28.0.</p> <p>To estimate the cost of the measure over several years, PBO developed a model that follows individuals as they age and provides a cost estimate for each year, while also taking mortality rates into account. New cohorts of individuals aged 71</p>															

1. Parliament of Canada, <https://www.parl.ca/DocumentViewer/en/42-1/bill/C-301/first-reading>, consulted October 2020.

2. This analysis is based, in part, on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO), and the responsibility for the use and interpretation of these data is entirely that of the PBO.

are added to the model each year, based on Statistics Canada's demographic projections.

For each individual, the cost decreases over time, even becoming negative for some older individuals. RRIFs must eventually be exhausted, which means that the money saved (and the capital gains on those savings) will eventually be withdrawn from a RRIF, whether voluntarily or when the holder dies.

Aggregate results:

The cost for the first full fiscal year, 2021–22, would be \$940 million. The cost for the last year in the projection, 2024–25, would be \$1,016 million.

Source of uncertainty:

While the SFS data were adjusted to reflect the CRA's most recent administrative data, the fact remains that SFS data are based on a survey and, as with any data based on surveys, they are inherently uncertain. Uncertainty also stems from the fact that the model developed must estimate a behavioural reaction. Individuals will take several variables into account when they decide whether to withdraw from their RRIFs, assuming this measure takes effect. Many of these variables are not measurable or observable by PBO.

Prepared by:

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Cost of proposed measure

\$ millions	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Total cost	233	940	972	1,001	1,016

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost