

# Legislative Costing Note

Announcement date:	2020-03-25 (C-13)										
Publication date:	2020-04-02										
Short title:	Decreasing the minimum withdrawal rate from Registered Retirement Income Funds by 25%										
Description:	Registered Retirement Income Fund (RRIF) holders are required to withdraw a prescribed percentage of their RRIF each year. The prescribed amounts are determined by the holder's age, or optionally the age of their spouse. This policy calls for the reduction of the prescribed minimum withdrawal rates from RRIFs by 25% across all ages. This would be in effect for the 2020 calendar year only.										
Data sources:	<table> <tr> <th><u>Variable</u></th><th><u>Source</u></th></tr> <tr> <td>Aggregate RRIF stock by age</td><td>Survey of Financial Security, Statistics Canada</td></tr> <tr> <td>Average effective tax rate by age</td><td>Survey of Financial Security, Statistics Canada</td></tr> <tr> <td>Population counts for ages 80+</td><td>PBO Estimates</td></tr> <tr> <td>Consumer Price Index</td><td>PBO Estimates</td></tr> </table>	<u>Variable</u>	<u>Source</u>	Aggregate RRIF stock by age	Survey of Financial Security, Statistics Canada	Average effective tax rate by age	Survey of Financial Security, Statistics Canada	Population counts for ages 80+	PBO Estimates	Consumer Price Index	PBO Estimates
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Estimation and projection method:	<p>Statistics Canada's Survey of Financial Security (SFS) contains data on RRIF holdings and gross and net incomes by household. These quantities were aggregated to obtain total RRIF holdings and average effective tax rates by the age of the household's primary income earner; this was assumed to be representative of the age of the individual withdrawing from a household's RRIF. As the SFS groups all households with a primary income earner of age 80 or higher into one group (80+), PBO population estimates were used to distribute the quantities in this group for ages 80-90.</p> <p>This estimate assumes that all RRIF holders would withdraw at the minimum rate as dictated in the legislation (Prescribed Amounts and Areas, Income Tax Regulations, (C.R.C., c. 945)). Total estimated RRIF withdrawals were therefore calculated by multiplying the total RRIF amounts by age group by the minimum withdrawal percentage associated with each age. Average effective tax rates for each age group were then applied to obtain total tax revenue.</p> <p>The total cost of the measure is then calculated as the difference between the tax revenue under the former and new minimum withdrawal rates. As the source survey took place in 2016, the amount was then inflated to the 2020 calendar year.</p>										

Aggregate Results:	This policy has an estimated total cost of 506.5 million in the 2020-2021 fiscal year. Consistent with the current time horizon for our Economic and Fiscal Scenario, costs are only presented up to March 31st, 2021.
Source of Uncertainty:	As with any analysis based on survey data, the validity of the estimate is dependent upon the data being reflective of the Canadian population. This estimate also relies on the assumption that all RRIF withdrawals in the 2020 calendar year will be done at the lowest possible rate; this analysis therefore does not take any behavioural effects into account. Finally, the survey only provided the age of the household's primary income earner; the estimate is therefore based on the assumption that this age is reflective of the age upon which the minimum RRIF withdrawal amount is based.
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### Cost of proposed measure

\$ millions	2020-2021
Total cost	506.5

#### 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