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Standing Committee on Finance

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1005

The Chair

Ms. Susan Pigott (Chief Executive Officer, St. Christopher House)

Mr. John Stapleton (CUSP Fellow, St. Christopher House)

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The Chair: Thank you very much.

Now we'll go to St. Christopher House.

Ms. Susan Pigott (Chief Executive Officer, St. Christopher House): Good morning. Thank you, Madam Chair, and good morning, committee members. We appreciate the opportunity to speak with you this morning.

St. Christopher House is a 91-year-old community-based agency here in Toronto, providing social services to 10,000 people every year. Most of the people we see at our agency are poor, so we have an interest in initiatives that can improve their income.

Today I'm here with my colleague John Stapleton, who is our visiting policy fellow at St. Chris, to talk to you about registered development savings plans, or RDSPs. This is a new financial vehicle developed by the St. Christopher House community. RDSPs are an alternative to RRSPs that provide the structure for low-income people to accumulate and retain their assets.

I'm going to turn things over to John now to walk you through the RDSP plan.

Mr. John Stapleton (CUSP Fellow, St. Christopher House): Thank you, Susan.

Madam Chair and members of the committee, at page 140 of the budget plan for 2003, Minister Manley said, and I quote:

Moving forward, it is important that the tax system continue to provide effective mechanisms to support saving. The Government has received numerous representations from individuals, researchers and businesses that Canada's tax system should be more conducive to saving. The Government intends to carefully review these representations and to conduct analysis in order to identify possible approaches for future improvements. In particular, the Government will examine whether tax pre-paid savings plans could be a useful and appropriate mechanism to improve the tax treatment of savings and to provide additional savings opportunities for Canadians.

We'd first like to acknowledge that the finance staff will be conducting a consultation on TPSPs later on this month, and we'll be part of that, but we also believe that members should hear our proposal. We're proposing that the Government of Canada formally implement a particular type of tax prepaid savings plan as a true tax advantaged savings plan for low-income Canadians who do not benefit from RRSPs. This type of TPSP, as Susan noted, called a Registered Development Savings Plan, is specifically designed to protect and maintain the assets and savings of low-income individuals and families.

We also believe that the federal government should adopt a leadership role with provinces and territories by calling for the exemption of the proposed registered development savings plan from provincial and territorial social assistance programs or welfare restrictions on assets and income.

If this is not done, and TPSPs are implemented without special consideration for low-income people, Canada will provide tax advantaged savings plans for the rich and middle classes, but nothing for low-income Canadians. Low-income Canadians should be treated fairly when it comes to tax benefits for savings plans.

In the paper we have provided, we go into some detail as to why RRSPs do not work for low-income Canadians. On page 20 of our report, you see that for every advantage that an RRSP has for the well off, there's a clear disadvantage at almost every turn for those who are poor.

Looking at the features, whether it's a tax deduction, the RRSP deadline, the role of investment advisers, the publicity that's available, the prevalence of taxable income, the amount and form of tax liability at retirement, the relationship with seniors benefits clawbacks, and the crucial role of RRSP loans, there are advantages for the well off for each of these, and disadvantages for the poor.

Yet with all these problems, federal government statistics show that 152,000 Canadian tax filers with less than \$10,000 in yearly income have contributed \$160 million to RRSPs, not to good effect. If a low-income Canadian with some savings were to go to a knowledgeable RRSP adviser, that adviser would say make sure you don't go on welfare, and whatever you do, cash out your RRSP before you turn 65. What makes TPSPs—and what got our attention—so important for the poor— is that, unlike RRSPs, they have the potential to avoid the latter issue relating to turning 65 years of age.

Because a TPSP is not taxed on redemption, the GIS—guaranteed income supplement—received by a lower-income senior is not reduced by 50¢ on the dollar, which is, of course, what happens with an RRSP, and is why our knowledgeable adviser would advise cashing out before the normal age of retirement of 65. But we still have the first problem related to going on welfare.

Most low-income adults either go on welfare at some time during their working life or live in some fear that they may have to resort to welfare at some point during those working years. You can't have any monetary assets if you go on welfare, we all know that. RRSPs, for example, must be cashed in, and if TPSPs are accepted for implementation, it would be impossible to recommend to provinces and territories that they should simply exempt from welfare rules money that someone might hold within a tax prepaid savings plan. For example, the amount in a TPSP could easily be a million dollars or more.

So what's the solution? The solution is to create the specialized TPSP that we are calling for here today, a modest TPSP that will level the playing field and provide for low-income, tax-paying Canadians a tax advantage instrument specifically designed for their circumstances.

I'll go briefly through the design as we see it. It is proposed that tax prepaid savings plans be added to the Income Tax Act as a savings vehicle. The principle in a TPSP would not be tax-deductible upon registration or taxable on redemption. RDSPs would be added as a special TPSP for negotiation between the federal, provincial, and territorial governments in regard to assets restrictions on welfare programs.

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As with TPSPs, contributions to and withdrawals from RDSPs would be exempt from taxation. For TPSPs, no approval is needed regarding spending of the assets. That's true with RRSPs. With RDSPs, earnings realized within the plan would be exempt from taxation, as long as the proceeds were eventually disposed of on approved items. Once approved for tentative inclusion in the Income Tax Act, provinces and territories would be approached to exempt RDSPs from welfare assets and income restrictions.

Unlike registered home ownership savings plans or registered education savings plans, there would be a basket of approved destinations. The ultimate destination for spending RDSPs would be subject to demonstrating that a set of clear guidelines have been met.

This would allow people of low income and wealth to begin building their assets by saving in a structured way for the things that they need both in retirement and their more immediate future without penalty. RDSPs would also significantly lower rates of welfare dependency, as they would provide an economic cushion for people who would otherwise be faced with returning or going on welfare. All moneys would be exempt under assets and income rules, as I've said. We see a maximum cap of about \$25,000. This amount would grow within the plan.

One exception would be made for windfalls and the whole of the \$25,000 that we see as the cap could be paid in, like the form of compensation that would be paid to a low-income person, or from some other source, like an inheritance. Low-income people who may be facing other challenges in their lives would benefit from having a place to park a windfall until such time as they achieved greater income stability, or until they had a cogent plan for the fund. Often windfall money is squandered at a certain point in a person's life, when it could have a more optimal use at a later date.

Thank you very much.

The Chair: Thank you very much. I appreciate the very detailed brief that you gave on that, too.

With all the members in the room, I think we're going to have to go with a six-minute round to stick to our timeline, colleagues--six minutes each. That includes, by the way, panelists, your answers. Keep that in mind too.

Go ahead, Mr. Solberg.

Mr. Monte Solberg: Thank you very much, Madam Chair.

Thank you to all the presenters. There were some very interesting presentations.

I want to start with Mr. Stapleton. First of all, I just have to say that I appreciate very much the thought you've put into this. It's a very interesting idea. I share your concern about what happens to people who turn 65, use their RRSPs, and then make themselves effectively ineligible for a guaranteed income supplement. It's very distressing that this goes on, and on, and on. I certainly think we should recommend that we find a way to change that.

One way to do it is the TPSP. It's a great idea, generally. And I would even suggest for people in the housing industry, if you want to find a way to encourage people to have money for home repairs, instead of changing RRSPs to allow that, a TPSP I think is a more effective way, because it does not distort and discriminate against any particular sector.

I am interested in the philosophy behind the RDSP as well. I'm wondering, first of all, whether or not your support for this is universally shared in the anti-poverty movement. I favour this very much. I like the idea of it, because it gives people who are at the low end of the income scale a real asset, something they can be proud they've actually earned and have set aside. I'm wondering if you find general enthusiasm for this idea in the anti-poverty sector.

(1015)

Ms. Susan Pigott: May I just respond to that, quickly?

This RDSP is a fairly new idea. Where it's gaining a lot of support is among anti-poverty activists who are interested in the asset-oriented anti-poverty strategies. You're probably aware that Human Resources Development Canada is now experimenting with individual development accounts, which are essentially plans whereby individuals who are low-income are matched \$3 to \$1 by the federal government for every dollar they're able to save.

This type of asset-oriented anti-poverty work is very prevalent now in Great Britain and in the States. I think there's growing interest in it here in Canada. We're certainly interested in it at St. Christopher House. But it is a new approach to looking at this, one which I'm hoping will gain ground rapidly.

Mr. Monte Solberg: Thank you. It's exciting. I wish I had more time to talk about it.

Hon. Maria Minna (Beaches—East York, Lib.): Thank you, Madam Chair.

First, I wanted to start with the Association of Food Banks. I personally would love to see this country get to the point where we don't need food banks.

I recall growing up as an immigrant child and being poor. At the time in the 1950s, we didn't have food banks, but somehow we managed. I'd like to see us get back to that. That is my preference. I'm sure that we could sit down for a longer period of time and figure out how we could get there.

The splitting of the CHST and education is something the official policy committee of the Liberal caucus has been discussing. In fact, we had a meeting last week with all of the colleges and universities in the educational systems. We actually asked them a series of questions on how they would see that this would actually happen, and what kind of condition and what kind of structure they would see in terms of post-secondary education nationally. Of course, the next topic would be on the CHST, the shape that would take, the kinds of criteria and so on that we'd have in there.

I agree with you 100% that it would create, once and for all, the kind of transparency that we need in the areas of health, social transfer, and education--which we had to some degree under the old CAP system. I say that because I don't disagree with what you present.

On the pensions, the retirement side, with St. Christopher House, I don't know if you're appearing tomorrow. The Toronto Liberal caucus is having a public consultation that I am chairing on pension reform and seniors. It's a Prime Minister's task force. While the Prime Minister is having tributes given to him in the House, nonetheless the report will go to the Prime Minister, whether it be Mr. Chretien or Mr. Martin. When it's ready, the report will go to them.

It was short notice because the Prime Minister set up the task force a few weeks back and wanted a report by December 10. This is a first cut, and then we will probably be coming back for a second cut.

The comment you make with respect to the RRSP being totally non-usable for poor Canadians is absolutely true, but it's not really usable for the average Canadian either. Unless you have well over \$100,000 saved, you really are not going to benefit from RRSPs. The average RRSP contribution is something like \$2,500 or \$5,000 a year. Over a lifetime, it doesn't really help. We need to look at other methods to address poor Canadians, as well as low-income and middle-income Canadians.

I would like to understand from you more on how the RDSP would work, exactly. Have you thought about the structure of that at all in terms of how it would actually be applied?

I know that the Americans have different systems. I've been looking for some new structures to recommend to the government.

(1035)

Mr. John Stapleton: Our brief does have a detailed design of the RDSP, but we do believe that it should be a secure instrument. If there is any one essential for low-income people.

The Chair: Colleagues, there was a 26-page preamble, and then the speaking points.

Hon. Maria Minna: I will get to all the pages, I promise.

My other question is on the RESP. The Canadian Federation of Students made a presentation to us and basically said that the RESP was not a good tool for education saving because it didn't help the poor or average Canadian. The more money you have to put away, the more money you have at the end to pay for your children, and low-income Canadians really aren't able to put enough away to make a real difference.

The reason I raise this is twofold, and I'd like you to give me some input. I have some concerns about tax credits being the social vehicle we use at times, because they tend to benefit people who have money to save. If you don't have money to save, a tax credit isn't going to do you a great deal of good.

I wonder if you could tell me how effective it is or not, and what you would replace it with, if you've thought about that at all.

Mr. John Stapleton: Certainly refundable tax credits work for the poor, and tax exemptions don't work for the poor, so we would support anything that puts more money into the pockets of poor people. But specifically, we see an equity issue when we have a proposal for a TPSP that would specifically advantage those people with additional money. So we see refundable tax credits as the answer, as opposed to tax exemptions. That's how we've designed the proposal.

Hon. Maria Minna: Okay. **10:35 a.m.**

11:05 a.m.

Ms. Susan Pigott: On the income side of things, many people in the social policy world now are of the feeling that it's time for a modernization of our income security programs. This is not an easy thing to do. It will take unprecedented cooperation between the federal and provincial governments. We've already alluded to some of the problems we've had in other jurisdictions with that.

A particularly necessary starting place is with working-age adults. We have some social architecture for seniors, we have the social architecture now for income transfers to families with small children. We have a mess where EI drops off into the mire of provincial social assistance. So while we recognize that there isn't enough money perhaps to restore things to the way they were ten years ago on the income transfer side, there are plenty of improvements that could be made by a wholesale modernization of the system.

The social policy community led by places like the Caledon Institute and CPRN are ready for this. Those of us working in the field are ready to enter into that process. We do need some leadership from the federal government.