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MEMORANDUM

April 17, 2020

To: Department of Finance
Prime Minister's Office

Re: **Economic Response to COVID-19: Unlocking Retirement Savings Plans**

Dear Sirs/Madam,

Westcoast Actuaries Inc. is a consulting firm based in Vancouver, BC. We provide a wide range of consulting services, including pension, actuarial, and investment consulting to private corporate pension plans, individual pension plans, and jointly trusteed association plans.

We are writing to recommend allowing Canadians unlock retirement savings plans in response to the COVID-19 pandemic.

COVID-19 Response

Along with the rest of the world, Canada has seen record job losses in March due to the COVID-19 pandemic. In response, the Government of Canada has announced significant stimulus and spending initiatives to support Canadians. However, one source that remains untapped is the ability for Canadians to withdraw from personal retirement savings plans such as Registered Retirement Savings Plan (RRSP). While there may be long-term implications, similar to the Home Buyers' Plan (HBP), this approach is reasonably simple and requires no additional financial support from the Government of Canada.

We believe the ability of unlocking retirement savings plans provides Canadians both the flexibility (to better fit their personal situation) and additional financial support (as the CERB is a flat dollar amount, it may not be sufficient, since Canadians' pre COVID-19 expenses may be much higher than $2,000). At the same time, allowing Canadians to withdraw from retirement savings plans would not result in financial stress on the Government of Canada, except the additional administrative effort.

Considerations

We believe that allowing Canadians to unlock their retirement savings on a penalty-free basis is paramount to alleviate personal financial emergencies we are experiencing across the country.

With respect to the unlocking of retirement savings, we believe the following variables should be considered:

1. Eligibility requirements;
2. Which specific vehicles may be withdrawn from (in addition to RRSPs (group or individual), Defined Contribution Pension Plan (DCPP) members may also be considered, as they may be temporarily laid off but be listed as members of the plan). Additionally, many Canadians participate in a DCPP, and as a result, do not have a personal RRSP.
3. Whether to use a formula (such as a percentage of Yearly Maximum Pensionable Earnings) for the withdrawal, a flat dollar amount, or a maximum allowance; and
4. How the withdrawal may be paid back to the plan in future years.

Recommendation

Based on the points of consideration listed and keeping mind the need for administrative simplicity and user effectiveness, we recommend the following program:

1. Rather than allowing all Canadians to withdraw from their retirement savings, we recommend adopting the Canadian Emergency Response Benefit (CERB) eligibility requirement to limit the ability to withdraw from retirement savings plans to individuals who have been financially affected. Additionally, to maximize its effectiveness, we recommend ensuring withdrawals do not affect an individual's ability to receive any other benefits made available at this time;
2. In addition to the individual RRSP, given many Canadians participate in employer-sponsored group pension plans, we recommend allowing withdrawals be made from all RRSP, DCPP, and locked-in retirement accounts. We do not recommend allowing withdrawals from Deferred Profit Sharing Plans (DPSP) to avoid complexity related to vesting; and
3. Allow a maximum withdrawal of $25,000 per individual be made available with no immediate withholding tax, but ultimately subject to a 15 year repayment period. Coupled with the CERB, this amount should provide significant help to Canadians.

The potential negative consequence is that, unlike the HBP, since COVID-19 is affecting Canadians of all ages, there may be additional considerations for those whose repayment period extends into normal retirement age (or even the RRSP contribution age limit of 71) and into the withdrawal period from a Life Income Fund (LIF). For this situation we recommend maintaining the annual withdrawal rate for income tax purposes, but offset the dollar amount withdrawn from the LIF by the annual repayment amount.

With the exception of administrative considerations through various service providers and the recordkeeping effort by the CRA, we don't believe there are other negative consequences as a result of our recommendation. We see the benefit to unlocking retirement savings plans to outweigh the costs.

We appreciate your time and effort during these challenging circumstances.

Please do not hesitate to contact us if you have any questions or if you would like to discuss our recommendations in greater detail.

Regards,

Kevin MacKenzie, CFA
Investment Consultant

George Wang, FCIA, FSA
Consulting Actuary