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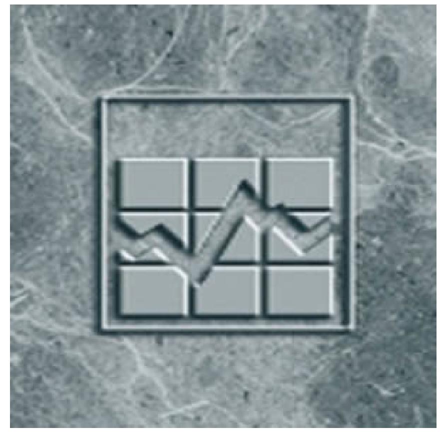

by Xuelin Zhang

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Recent trends in families' contributions to three registered savings accounts

by **Xuelin Zhang**

1. Introduction

The Registered Pension Plan (RPP), the Registered Retirement Savings Plan (RRSP) and the tax-free savings account (TFSA) constitute the third pillar of the Canadian retirement income system.[1] Incomes from these sources account for an increasing share of the total income of elderly Canadians. For example, income from private pensions accounted for 12.1% in the total income of Canadians aged 65 years and older in 1976. By 2019, this share increased to 35.0%.[2] It is therefore important to assess the health of this third pillar of Canada's retirement income system.

One aspect of the health of the system is the inflow of funds to the system, and the key questions are, how many Canadians participated in these three registered accounts and how much did they contribute to them? Numerous studies attempted to answer these questions. However, because of data limitations, most authors focused on RPPs only, RPPs and RRSPs only, or TFSAs only.[3] One exception is Mehdi and Roberts (2017) who examined the household contribution rate to one or more of the three registered accounts in 2015. This study extends their work in two directions. In addition to examining the contribution rate, this paper also looks at the contribution amount. Furthermore, it investigates the participation in, and the contribution to, the three registered savings accounts over 12 years (2009 to 2020), when data on all three registered accounts were available.

Mehdi and Roberts (2017) took households as the unit of analysis in their study. This differs from other studies that focused on individual contributors. The study by Morissette and Ostrovsky (2006) was the only other study in which Canadian families' pension coverage and retirement savings were analyzed. The authors argued that retirement readiness was better assessed by looking at the family total contribution to their retirement savings plans. Following those studies, this current work examines the participation in, and the contribution to, the three registered savings accounts by Canadian families.

Data from the Longitudinal Administrative Databank (LAD) were employed in this analysis. In the LAD, the census family is the only family unit available; hence, this study examines the participation in, and the contribution to, the RPP, the RRSP and the TFSA by census families during the period from 2009 to 2020.[4]

2. Participation in tax-free savings accounts rises, while participation in Registered Retirement Savings Plans falls

Chart 1 indicates that most Canadian families contributed to one or more of the three registered savings accounts. In 2009, more than half (52.3%) of Canadian families participated in one or more of the three registered accounts. The share increased every year until 2015, reaching 57.9%. It stayed flat for a few years thereafter, varying between 57.1% and 57.3% before the onset of the COVID-19 pandemic. In 2020, the share reached a record high of 58.1%.

1. The first pillar consists of the Old Age Security pension and the Guaranteed Income Supplement, while the second pilar consists of the Canada Pension Plan or the Quebec Pension Plan.
2. Statistics Canada Table 11-10-0239-01.
3. Morissette and Ostrovsky (2007) and Messacar (2015) focused on the RPP and the RRSP, Messacar (2017) focused on the RRSP and the TFSA, and Lavecchia (2018) focused on the TFSA.
4. Census families consists of couples with or without children and one-parent families with children. A person living alone is also counted as a family unit in this study for statistical analysis.

Did you know?

Registered Pension Plans (RPPs) are a form of tax-deferred savings arranged by employers or unions to provide pensions to retired employees. Contributions to RPPs are tax deductible and are frequently matched by the employer, but the pension will be taxed when received.

Registered Retirement Savings Plans (RRSPs) allow individuals or their spouses to make tax-deductible contributions. Contributions are capped at the lesser of a fixed percentage of an individual's employment income from the previous year or a fixed limit ($27,230 for 2020 in current dollars). Income earned in the account accumulates tax free while withdrawals are taxed. Unused contribution room can be carried forward until age 71 after which the RRSP is closed, and an individual chooses either to pay taxes on the full value of the RRSP holdings or to convert the holdings into a registered retirement income fund.

Tax-free savings accounts (TFSAs) allow residents aged 18 and older to save up to a yearly contribution limit ($6,000 in 2019 to 2022 in current dollars). Contributions are not tax deductible and any income earned on these contributions can accumulate in TFSAs tax free. A TFSA account holder can withdraw money from the account at any time, free of taxes. Money withdrawn from a TFSA in the current year increases the contribution room in the subsequent year by the same amount.

Other than the contribution limits mentioned above and throughout the text, all dollar amounts in the study refer to 2020 constant dollars.

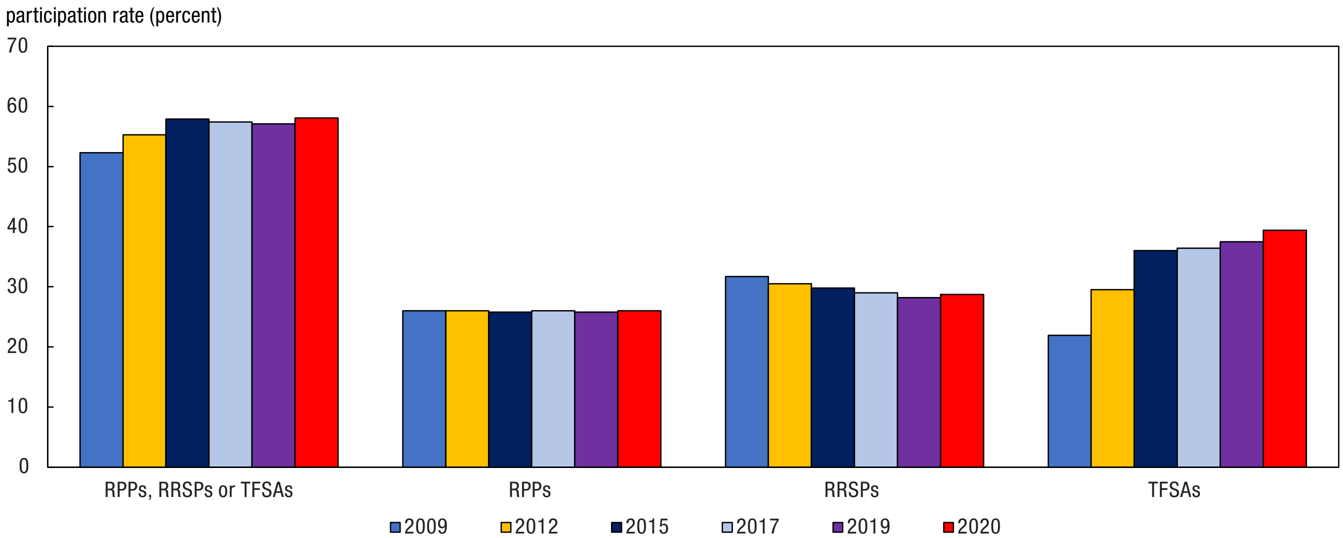
Behind those changes in the overall participation rate were the sharp increase in the TFSA participation rate and the gradual decline in the RRSP participation rate. The TFSA was introduced in 2009, and the family participation rate in TFSAs increased nearly every year since. In 2009, just over one in five Canadian families (21.0%) contributed to TFSAs. The participation rate rose sharply to 36.0% in 2015 when the contribution limit had a one-time jump (from $5,500 to $10,000, current dollars). The participation rate retreated slightly (to 35.5%) in 2016 but resumed its uptick every year thereafter. By 2020, Canadian families' participation rate to TFSAs reached a record high of 39.4%, nearly doubling from its 2009 level.

The participation rates in the RRSP and the RPP evolved differently from those in the TFSA. From the late 1990s, Canadian families' participation rate in RRSPs started to decline. The declining trend persisted until 2019, while participation in RPPs remained flat since the early 2000s.[5] As a result, the TFSA participation rate surpassed the RPP participation rate as of 2011. By 2013, Canadian families' participation rate in the TFSA exceeded their participation rates in the RPP and the RRSP.

Despite the declining trend in RRSP participation and the flat trend in RPP participation before 2020, the RRSP participation rate and, to a lesser extent, the RPP participation rate increased in 2020, as did the TFSA participation rate. The RRSP participation rate rose from 28.2% in 2019 to 28.7% in 2020, while the TFSA participation rate increased from 37.5% to 39.4%. The RPP participation rate also ticked up from 25.8% to 26.0%. The simultaneous increases in the participation rates in all three registered accounts were mainly driven by the relatively large increase in family income and the substantial reduction in consumption expenditure in that year. For example, the median after-tax income of Canadian families rose 7.1% in 2020, reflecting a surge of government transfers, while household spending declined 6.8%. Consequently, Canadian households' net saving rate jumped to 26.5% in the first quarter of 2020 and remained as high as 13.0% and 11.0% in the third and fourth quarters, respectively. Some of those extra savings likely spilled over into one or more of the registered savings accounts.

5. Participation rates in RPPs and RRSPs in earlier years can be found in Appendix Chart A.1.

Chart 1
Family participation rate to registered savings accounts, selected years



Note: RPP = Registered Pension Plan, RRSP = Registered Retirement Savings Plan and TFSA = tax-free savings account.
Source: Statistics Canada, Longitudinal Administrative Databank.

3. The tax-free savings account accounts for an increasing share in total contribution

Total contribution to one or more of the three registered accounts grew substantially since 2009. The average contribution rose 54.4% between 2009 and 2020, from $10,345 to $15,970. Part of the strong growth in average contribution can be attributed to the extra savings in 2020 mentioned earlier.[6] However, when 2020 was excluded, average family contribution still gained an impressive 39.5% from 2009 to 2019. Hence, the strong increase in family total contribution to one or more of the registered accounts cannot be explained only by the surge of government transfers or the reduction in consumption expenditure.

Instead, the introduction of the TFSA likely altered the savings behaviour of Canadian families. On the one hand, TFSA contributions increased much faster than contributions to the other two registered plans. Table 1 shows that the average RPP contribution rose 27.1% between 2009 and 2020, while the average RRSP contribution grew 21.1%. In sharp contrast, the average TFSA contribution increased 75.0%. As a result, the TFSA contribution accounted for an increasing share of the total contribution. In its inauguration year, the TFSA contribution accounted for 28.2% of the total contribution made by Canadian families to one or more of the three registered accounts. Although it was still far below the share of the RRSP contribution (49.2%), it already exceeded the share of the RPP contribution (22.5%). However, by 2013 the share of the TFSA contribution was 40.5%, surpassing the shares of the RPP (20.5%) and the RRSP (39.0%) contributions, and by 2020, the TFSA contribution (51.8%) accounted for more than half of the total contribution of the three registered accounts.

6. A report by the Bank of Canada suggested that Canadians had accumulated an overage of $5,800 in extra savings by the end of 2020.

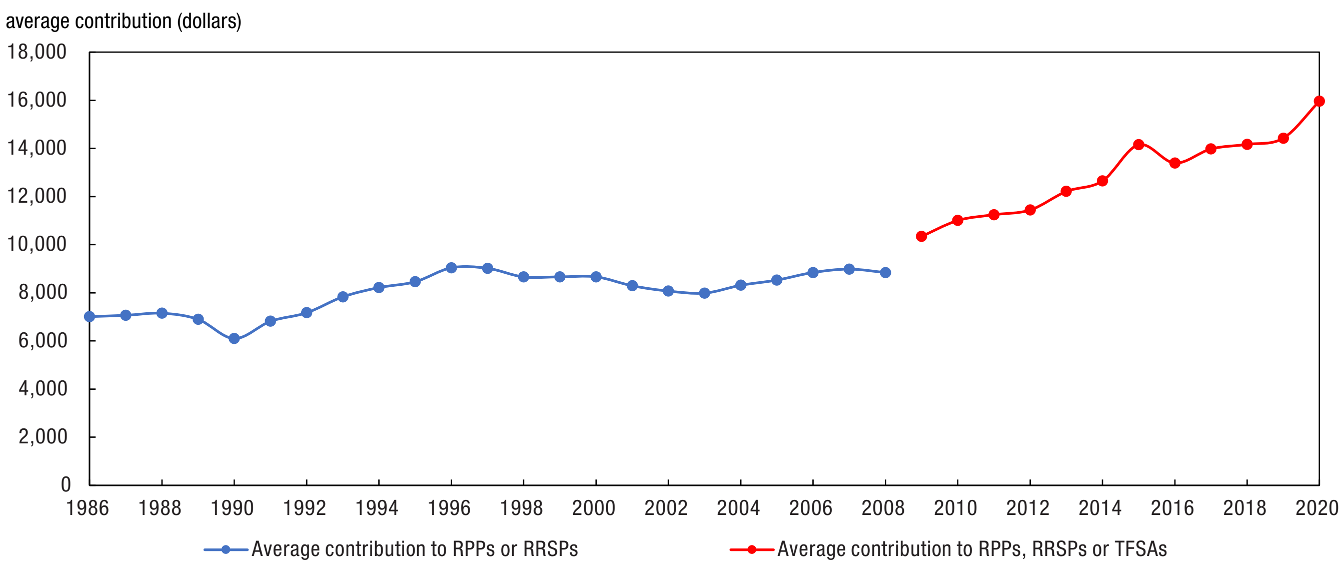
Table 1
Average contribution and share of each registered savings account in total contribution

Year	Average contribution				Share in total contribution		
	Total	RPP	RRSP	TFSA	RPP	RRSP	TFSA
	dollars				percent		
2009	10,345	4,690	8,410	6,975	22.5	49.2	28.2
2010	11,010	4,815	8,495	7,925	21.3	45.3	33.4
2011	11,250	4,945	8,360	8,175	21.0	42.1	37.0
2012	11,445	5,150	8,580	8,040	21.1	41.4	37.4
2013	12,215	5,435	8,855	8,735	20.5	39.0	40.5
2014	12,650	5,645	8,905	9,105	20.2	37.1	42.7
2015	14,155	5,810	8,870	11,260	18.3	32.3	49.5
2016	13,395	5,905	9,115	9,775	19.8	34.9	45.3
2017	13,980	5,965	9,305	10,365	19.3	33.6	47.1
2018	14,170	5,910	9,315	10,550	18.9	32.8	48.3
2019	14,430	5,915	9,485	10,800	18.5	32.4	49.1
2020	15,970	5,960	10,185	12,205	16.7	31.5	51.8

Note: RPP = Registered Pension Plan, RRSP = Registered Retirement Savings Plan and TFSA = tax-free savings account.
Source: Statistics Canada, Longitudinal Administrative Databank.

On the other hand, the growth trajectory of the family contribution to registered accounts appeared to have changed permanently after the introduction of the TFSA. Chart 2 shows the average family contribution to one or two of the registered accounts (RPP or RRSP) for the period between 1986 and 2008 and the average contribution to one or more of the three registered accounts (RPP, RRSP or TFSA) for the period between 2009 and 2020. As illustrated, the slope of the growth trajectory was much steeper in the 2009 to 2020 period than in the 1986 to 2008 period, suggesting that a faster-growing pace in the family contribution to registered accounts began after the inception of the TFSA.[7]

Chart 2
Average contribution to one or more of the registered savings accounts



Note: RPP = Registered Pension Plan, RRSP = Registered Retirement Savings Plan and TFSA = tax-free savings account.
Source: Statistics Canada, Longitudinal Administrative Databank.

7. When a simple regression model was estimated using the natural logarithms of the average contribution as the dependent variable and time as the independent variable, the slope estimate (the coefficients on time) for the 2009 to 2020 period was 0.0357, nearly three times higher than the slope estimate for the 1986 to 2008 period (0.0125) (all estimates were statistically significant at the 99% level).

A possible explanation for the new growth trajectory is that the TFSA offers different incentives for families in different income classes to save. Higher income families with extra savings may not have sufficient RRSP contribution room. Without the TFSA, these families' extra savings could generate additional taxable income and potentially place them in a higher income tax bracket. Thus, the TFSA offers a tax-efficient tool to higher income families to park and grow their savings. In contrast, tax liabilities are generally low for families with a low to moderate income; hence, saving in the RRSP is not tax efficient. In addition, future withdrawal from their RRSP account may also reduce their retirement benefits from public pensions. More importantly, saving for a rainy day is essential for these families. Without the TFSA, they would have to park this type of savings in a regular savings or investment account to which interest and other gains may potentially reduce or even disqualify them from certain income-tested government transfers. With the TFSA, these risks would be eliminated, whether it is used as a short-term savings vehicle or a retirement savings tool by families with a low or moderate income.

Given the declining trend in RRSP participation, it is natural to ask whether, and to what extent, the contribution to the TFSA crowded out RRSP savings. Without observing the contributing behaviour of the same families over time, it is difficult to answer these questions. However, as mentioned earlier, before the inception of the TFSA in 2009, the RRSP participation rate had already been declining for about a decade. The TFSA only became known to the public in 2008 through the federal budget. Thus, other factors must have contributed to the declining RRSP participation rate before 2009, and those factors likely persisted beyond 2009.[8] The TFSA was, at most, just one of the factors behind the declining trend in RRSP participation.

4. Contributions to registered accounts become more unequal

While the growth pattern in family contributions to the registered accounts tell us an interesting story at the aggregate level, it does not show the differences between groups of contributing families. The following sections explore the disparities of contributions among families, beginning with the inequality of family contributions to the registered accounts.

A comparison between the average and the median family contributions during the last decade shows that the average contributions always exceeded the median contributions in all three registered accounts (Table 2). In the case of the RPP, the average contribution was 1.3 times higher than the median contribution, while the mean contributions in the RRSP and the TFSA were, on average, about 1.5 and 1.6 times higher than their respective medians. This implies that the distributions of the contributions were skewed to the right and that considerable inequality existed in family contributions to these registered accounts.

Table 2
Median contribution and ratio of mean to median contribution

	Total contribution		RPP contribution		RRSP contribution		TFSA contribution	
	Median	Ratio of mean to median	Median	Ratio of mean to median	Median	Ratio of mean to median	Median	Ratio of mean to median
Year	dollars	number	dollars	number	dollars	number	dollars	number
2009	6,000	1.7	3,625	1.3	4,130	1.4	5,990	1.2
2010	6,755	1.6	3,710	1.3	4,195	1.4	5,880	1.3
2011	6,765	1.7	3,795	1.3	4,115	1.5	5,715	1.4
2012	6,730	1.7	3,955	1.3	4,165	1.5	5,630	1.4
2013	6,955	1.8	4,180	1.3	4,280	1.4	6,135	1.4
2014	7,115	1.8	4,310	1.3	4,270	1.5	6,020	1.5
2015	8,305	1.7	4,425	1.3	4,110	1.5	5,950	1.9
2016	7,340	1.8	4,510	1.3	4,160	1.6	5,825	1.7
2017	7,425	1.9	4,500	1.3	4,200	1.6	5,780	1.8
2018	7,510	1.9	4,510	1.3	4,135	1.6	5,650	1.9
2019	7,560	1.9	4,550	1.3	4,230	1.6	6,045	1.8
2020	8,240	1.9	4,615	1.3	4,600	1.7	6,000	2.0

Note: RPP = Registered Pension Plan, RRSP = Registered Retirement Savings Plan and TFSA = tax-free savings account.
Source: Statistics Canada, Longitudinal Administrative Databank.

8. These include, among others, the declining income tax rate since the late 1990s, a major reform in the Registered Education Savings Plan after the mid-1990s (Imbeau, 2015), and the increasing investment made in real estate by Canadians (Statistics Canada Tables 34-10-0095, 17-10-0005 and 18-10-0005).

Likewise, the growth rates of the average RRSP and RPP contributions were much higher than the growth rates of the median contributions. As seen earlier, between 2009 and 2020, the average RPP, RRSP and TFSA contributions increased by 27.1%, 21.1% and 75.0%, respectively. However, the corresponding medians (Table 2) grew by 27.3%, 11.4% and 0.2%. Because the average and the median RPP contributions grew at roughly the same pace, the ratio of the mean to median RPP contributions remained at 1.3 during the last twelve years. In contrast, the ratio of the average to median RRSP contributions went up from 1.4 to 1.7, while the ratio of the average to median TFSA contribution grew from 1.2 to 2.0. These rising gaps between the average and the median suggest that inequalities in the RRSP and the TFSA contributions increased over time.

A simple way to gauge contribution inequality is to compare the share of the contribution made by higher contributing families with the share made by lower contributing families. The top half of Chart 3 contains these comparisons. It shows that in each of the registered accounts, the share of the contribution made by the top 10% of contributing families almost always exceeded the share of the contribution made by the bottom 50% of contributing families, confirming the observation that contribution inequality existed within each registered account.[9] The bottom half of the chart contains another inequality indicator—the Gini indexes of the adjusted family contributions to the registered accounts.[10] The Gini index estimates also confirm the existence of inequality in family contributions.

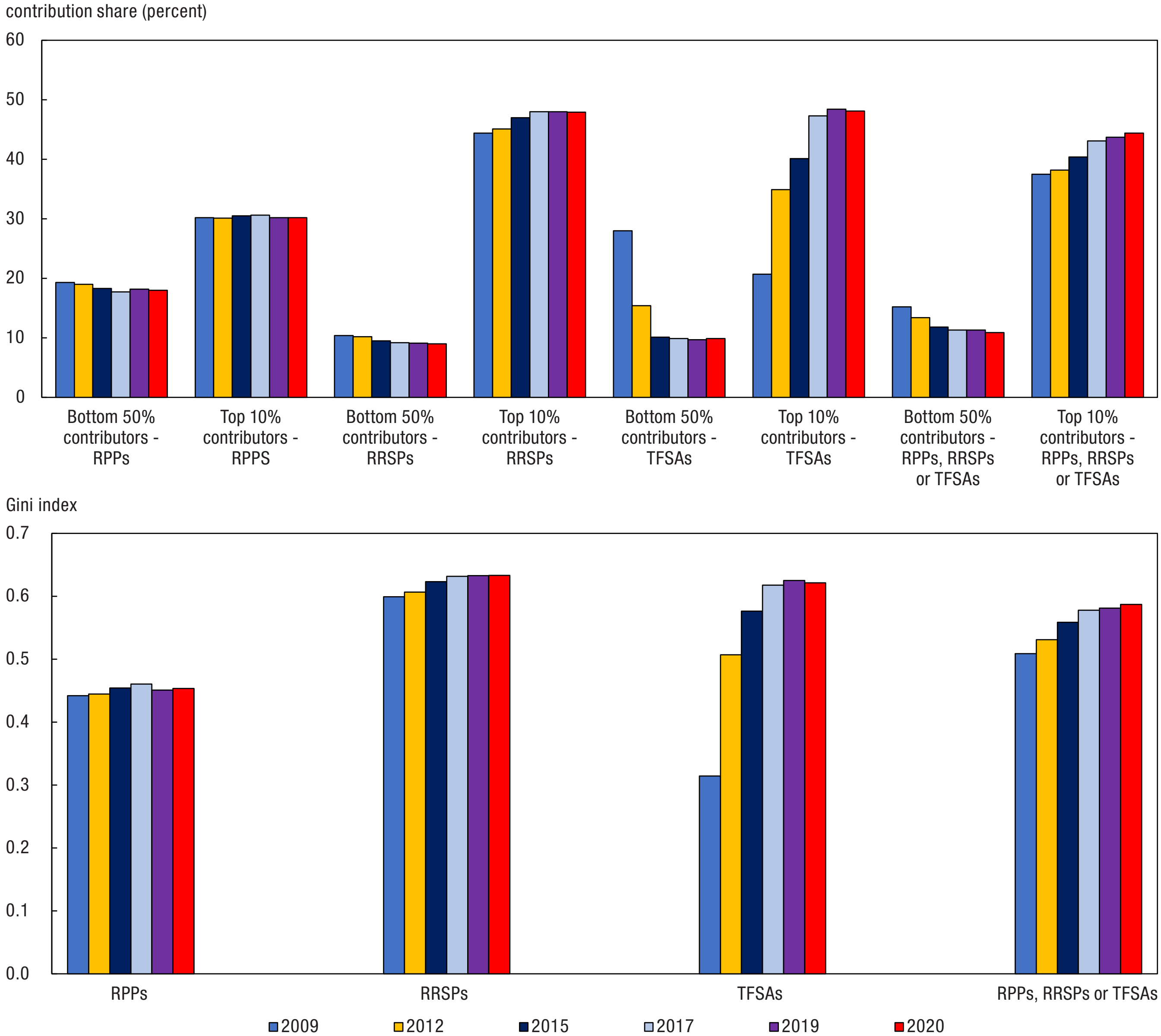
However, the extent of the inequality differed across the three registered accounts. The inequality in RRSP contributions, and especially in more recent years in TFSA contributions, were substantially higher than the inequality in the RPP contributions. The share of the top 10% of contributing families in the RPP contribution exceeded the share of the bottom 50% of contributing families, but not by twice as much. In contrast, the share of the top 10% of RRSP contributing families was more than four times higher than the share of the bottom 50% of RRSP contributing families, and the same can be said about the distribution of the TFSA contribution since 2015. The Gini index estimates also indicate that inequalities in the RRSP contribution and in the TFSA contribution more recently were much higher than the inequality in the RPP contribution.

The contribution to each of the registered accounts also grew more unequal over the last 12 years. The Gini index increased in all three registered accounts. The increase in the RPP contribution was very small (from 0.44 in 2009 to 0.45 in 2020), while the increase in the RRSP contribution was modest (from 0.60 to 0.63). However, the Gini index for the TFSA contribution doubled from 0.31 in 2009 to 0.62 in 2020. The large increase in the Gini index for the TFSA contributions was most likely driven by the substantial increase in the contributions made by higher contributing families. The average contribution varied between $200 and $325 during the last 12 years for the bottom 10% of contributing families. In sharp contrast, the average contribution made by the top 10% of contributing families grew more than fourfold, from $14,370 in 2019 to $58,610 in 2020.

The changes in the contribution shares of the higher- and lower-contributing families further indicate that the pathway in the growth in inequality differed across the different registered accounts. The increase in the inequality of the TFSA contribution was accompanied by a substantial rise in the share of the top 10% of families and a substantial decrease in the share of the bottom 50% of families. In contrast, the share of the top 10% of families in the RPP contribution did not change between 2009 and 2020, while the share of the bottom 50% of contributing families declined, signaling that inequality rose between the bottom- and the upper-middle-contributing families. In the RRSP contribution, the share of the top 10% of contributing families increased by an amount that more than offset the decline in the share of the bottom 50% of contributing families, indicating that the share of upper-middle-contributing families also declined, and thus, inequality increased between the top 10% and the rest of the contributing families.

9. The only exception was in 2009 when the TFSA was first introduced and the top 10% of contributors contributed 20.7% to TFSAs, while the bottom 50% of contributors accounted for 28.0% of the total TFSA contribution.
10. Adjusted family contribution is a family contribution divided by the square root of the number of adults in the family. The Gini index varies between 0 and 1, where 0 indicates that all families contributed equally and 1 indicates that all contributions were made by the highest contributing families.

Chart 3
Shares of contribution by the top 10% and the bottom 50% of contributing families and the Gini indexes in family contributions



Note: RPP = Registered Pension Plan, RRSP = Registered Retirement Savings Plan and TFSA = tax-free savings account.
Source: Statistics Canada, Longitudinal Administrative Databank.

Because inequality existed and grew in the contribution to each of the three registered accounts, it is natural to see that inequality also existed and grew in the total contribution. As indicated by Chart 3, the share of the top 10% of contributing families who contributed to one or more of the three registered accounts substantially exceeded the share of their counterparts in the bottom 50%. Moreover, the share of the top 10% of families rose, while the share of the bottom 50% of families decreased. As a result, the Gini index of the adjusted contribution increased from 0.51 in 2009 to 0.59 in 2020.

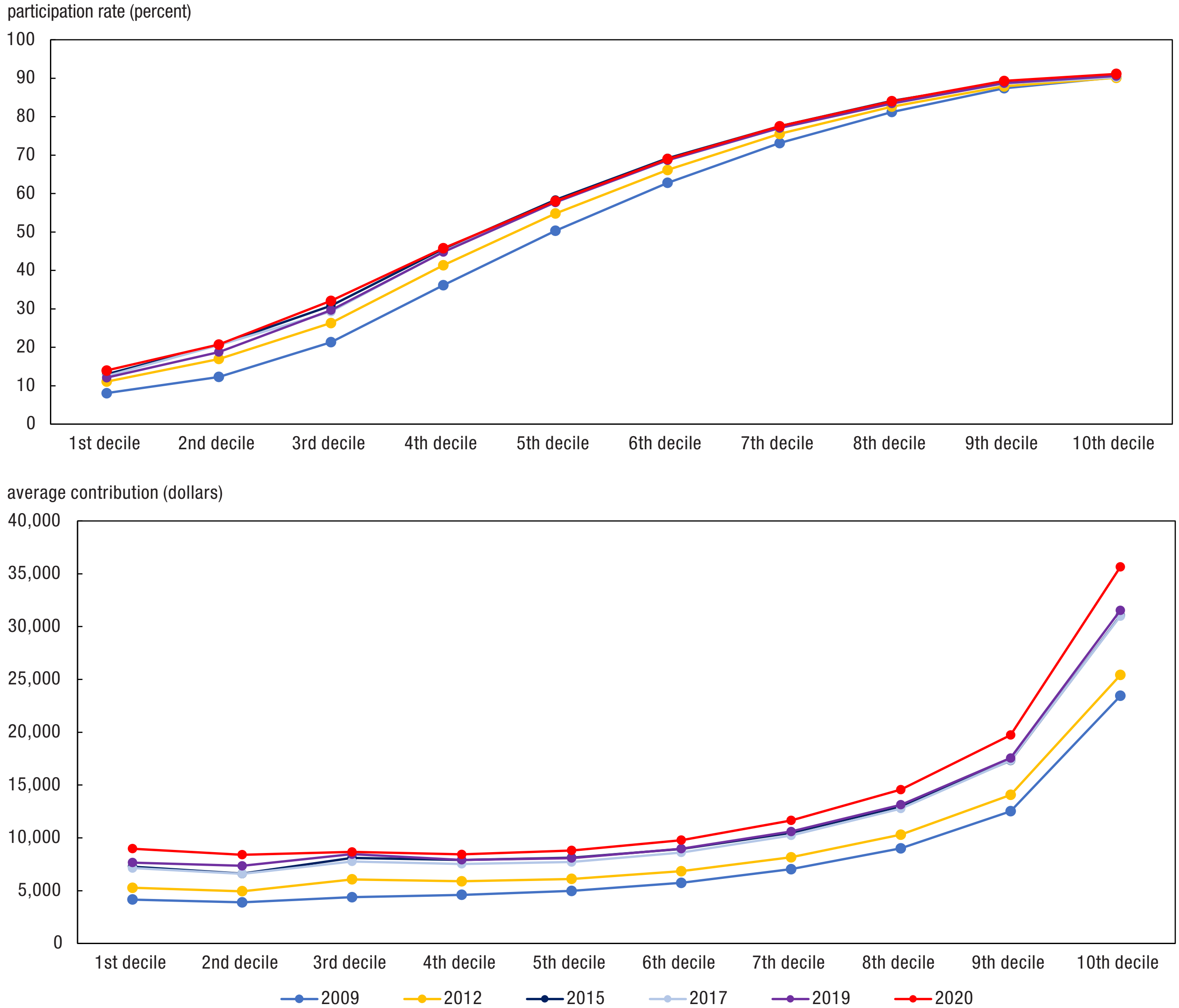
5. Higher-income families are more likely to participate in and contribute more to registered accounts

The previous section examined the contribution gaps in the three registered accounts between higher and lower contributing families. This section examines the contribution gaps according to family total income. Because a family's savings is the difference between its income and its consumption, families with lower income are likely to consume all or a large portion of their income and save less than families with a higher income. As shown in Chart 4, this relationship also holds in Canadian families' contributions to their registered savings accounts.

The top half of Chart 4 shows that about 1 in 10 Canadian families in the bottom income decile participated in retirement saving and that the participation rate rose steadily for families in higher income deciles. For families in the top decile, 9 out of 10 participated in retirement saving and their participation rate essentially stayed at the same level over time. In addition, the participation rate varied more among families in the lower deciles of the income distribution. For example, for families in the second income decile, the participation rate varied between 12.3% and 20.7% from 2009 to 2020, while the participation rate varied between 81.2% and 84.1% for families in the eighth decile, suggesting that participation in retirement saving was less certain among lower-income families.

The bottom half of Chart 4 illustrates that families with a higher income contributed more to their registered savings accounts than families with a lower income. In 2020, for example, families in the top decile contributed, on average, $35,650 to their registered savings accounts. This was nearly four times higher than the contributions made by families in the bottom decile ($8,975). Furthermore, although there was generally a positive correlation between savings and income for families in the bottom half of the income distribution, this correlation did not always hold. In 2009, families in the bottom decile contributed $4,160, on average, while families in the fifth decile contributed 19.6% more ($4,975); however, in 2020, the average contribution made by families in the fifth decile ($8,475) was 5.5% lower than the average contribution made by families in the bottom decile ($8,970). In contrast, the positive relationship held each year between 2009 and 2020 for families in the top half of the income distribution, and as families moved from the sixth to the tenth income deciles, the average contribution rose increasingly more: 19.2% from the sixth decile ($9,780) to the seventh decile ($11,655), and 80.7% from the ninth decile ($19,730) to the top decile ($35,650) in 2020.

Chart 4
Share of families participating in, and average contribution to, one or more of the registered savings accounts, by family total income decile, selected years



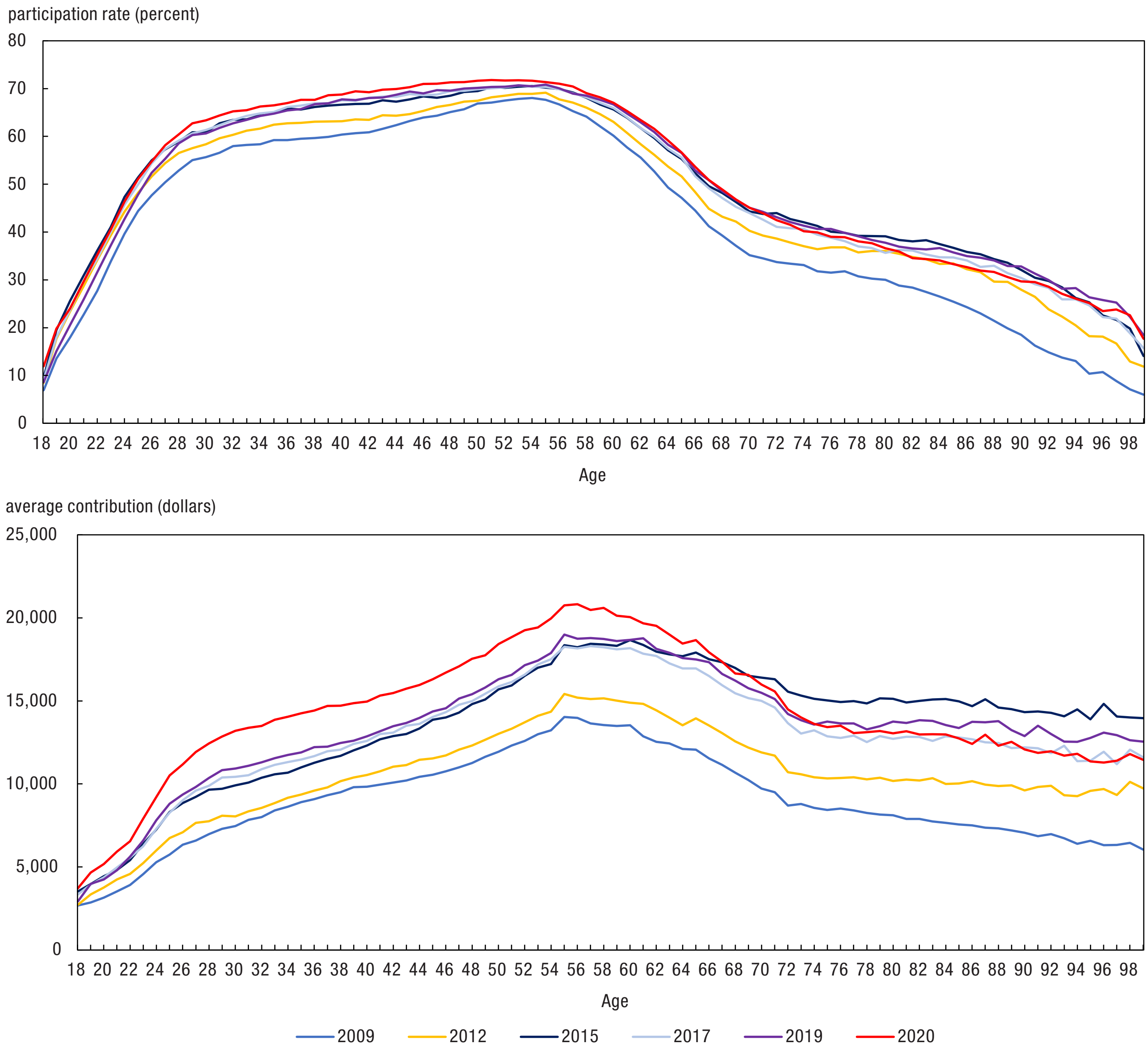
Source: Statistics Canada, Longitudinal Administrative Databank.

6. Contributions to registered accounts follow the family life cycle

A contribution to a registered account is a form of savings. A leading theory of saving is the life-cycle hypothesis that predicts a hump-shaped relationship between the age of those who save and their propensity to save as well as the amount they save.

With a focus on a family's contribution to their registered accounts, the age of the family reference person is used to approximate the family life cycle in this study. It was found that Canadian families' participation in, and their contribution to, registered accounts followed the family life cycle—the share of families contributing in, and their average contribution to the registered accounts showed a hump-shaped pattern with respect to the age of the family reference person (Chart 5).[11] The top part of the chart contains the share of Canadian families that contributed to one or more of the registered savings accounts, while the bottom half shows the average contributions made by the families. Generally, less than half of the families contributed to their registered accounts when their reference person was younger than 25 years. The share rose rapidly as the age of the reference person approached 30. After that, the share continued to increase, albeit at a slower pace, until it peaked when the reference person reached their early 50s, and then started to decline after the reference person reached the age of 55, the onset of early retirement.

Chart 5
Share of families participating in, and average contribution to, one or more of the registered accounts, by age of family reference person, selected years



Source: Statistics Canada, Longitudinal Administrative Databank.

11. The family reference person or family head is the person who received the highest total income among all family members. If two or more members received the same amount of total income, the older of the two is selected as the reference person. If both had the same income and are the same age, the man is assumed as the reference person.

Similarly, the average contribution started from under $5,000 when the family reference person was young and rose rapidly as the reference person approached the age of 30. The average contribution continued to increase at a slightly slower pace, reaching its peak when the reference person was around 54 years of age and decreasing thereafter. Notice that although the participation rate and the contribution amount declined as the reference person surpassed the age of 55, the average contribution made by contributing families was still unwaveringly strong. Some of the strong contribution was in part from contributions made by family members who were younger and still eligible to contribute to their RPPs and RRSPs. However, the TFSA was a much more important driver of the strong participation and contribution by families whose reference person was surpassing their retirement age because, unlike the RPP and the RRSP, all adults can contribute to their TFSA, irrespective of age.

7. Participation rates and contributions are higher in the four largest provinces

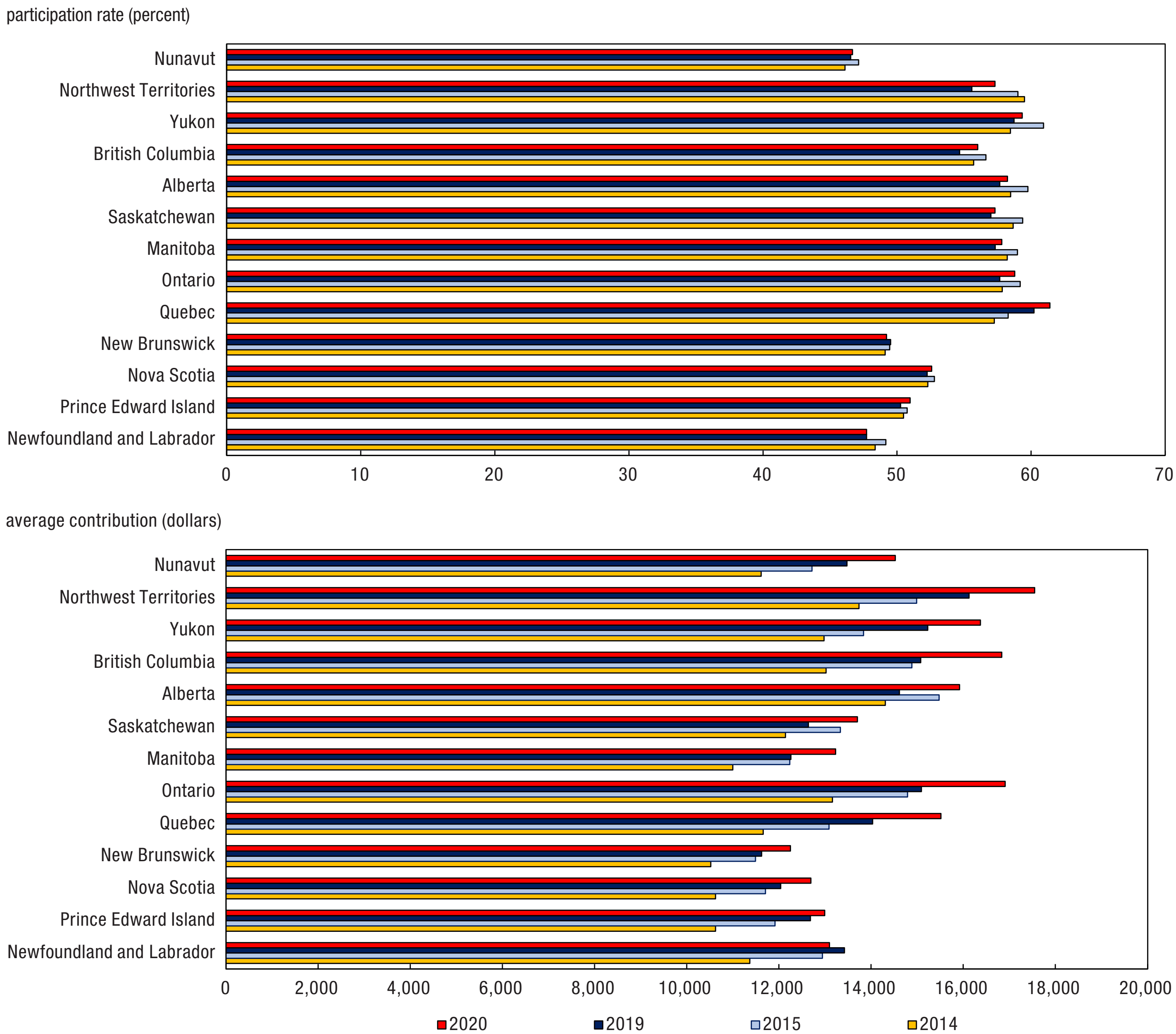
The propensity to contribute to the registered accounts and the contribution amounts differed across the country, largely driven by differences in factors such as population ageing, cost of living, employment and income.[12] Chart 6 presents the family participation rate in, and the average contribution to, one or more of the registered accounts. To save space, only data from selected years (2014, 2015, 2019 and 2020) are presented in the chart.[13]

The top half of Chart 6 indicates that the participation rates to RPPs, RRSPs and TFSAs were lower in the Atlantic provinces than those in the other provinces. An older population and a lower income in these provinces were the likely factors behind this trend. Families in the three territories had the highest RPP participation rate, possibly because of a higher proportion of employees working in the public sector whose employers were more likely to offer a pension plan.[14] However, families in Nunavut were the least likely to participate in RRSPs and TFSAs. As a result, their participation rate to one or more of the registered accounts was lower than that of families in all other jurisdictions.

Families in Quebec, Manitoba and Saskatchewan, where union coverage was relatively high, had higher participation rates in RPPs than families in the other provinces.[15] In Quebec, where the cost of living was generally lower and the provincial income tax rate was higher, families also had relatively high participation rates in RRSPs and TFSAs—their participation rate to one or more of the registered accounts was higher than in all other jurisdictions in 2020. Families in Ontario, Alberta and British Columbia had comparatively lower RPP participation rates, but their participation rates in RRSPs and TFSAs were relatively high; hence, families in those provinces also had higher participation rates in one or more of the registered accounts.

12. A study by Costa-Font et. al. (2018) suggests that cultural norms are an important explanation for the cross-country differences in saving behaviour.
13. Data from other years showed essentially the same trends as they did from 2014, 2015, 2019 and 2020.
14. For example, in 2020, more than two out of five employees in the territories worked in education, health care and public administration (Statistics Canada Table 14-10-0392).
15. See Statistics Canada Table 14-10-0070).

Chart 6
Participation rate and average contribution in provinces and territories, selected years



Source: Statistics Canada, Longitudinal Administrative Databank.

The bottom half of Chart 6 presents the average contribution to one or more of the registered savings accounts in the same years as those in the top half. In Ontario, Quebec, Alberta, British Columbia, Yukon and the Northwest Territories, where families had higher participation rates, the contributing families also tended to contribute more to one or more of the registered accounts than families in other jurisdictions. On the other hand, families in the Atlantic provinces, Manitoba, Saskatchewan and Nunavut had lower average contributions. In all these jurisdictions, the average contributions to TFSAs were lower. Families in the Atlantic provinces, Manitoba and Saskatchewan also had a lower average RPP contribution, while families in Nova Scotia, New Brunswick, Prince Edward Island, Manitoba and Saskatchewan all had a lower average RRSP contribution.

8. Looking ahead

Data on contributions to RPPs, RRSPs and TFSAs in 2021 are not available at the family level yet, but available data on individuals' contributions to RRSPs and TFSAs suggest that the upward trend in family contributions to one or more of the registered accounts might have continued.

In 2021, a slightly higher share (22.4%, +0.1 percentage points) of tax filers contributed to RRSPs. The median contribution made by the contributors increased 4.6%, from $3,600 to $3,765 (in 2020 constant dollars). Data from the T1 Family File indicated that the number of wage earners and the median wages increased in 2021. The strong increase in wage earners in the public sector, where the RPP contribution rate is comparably high, suggests that the participation rate in RPPs should have increased in 2021.

Likewise, preliminary data show that three out of five Canadian tax filers (59.8%) contributed to their TFSA in 2021, up from 58.0% in the previous year. The average contribution reached $9,920, an increase of 8.1%. This was not as strong as in 2020 (11.3%), but still much stronger than in most other years since the inception of the TFSA. Because TFSA participation was more prevalent and contributions to TFSAs exceeded those to RPPs and RRSPs, the upward trends in the participation rate in, and the contribution to, one or more of the registered accounts would likely continue in 2021.

9. Summary

RPPs, RRSPs and TFSAs make up the "third pillar" of the retirement income system in Canada, and income from these sources play an increasingly important role to support the well-being of elderly Canadians. This article examines families' participation in, and their contribution to, those registered accounts for the period from 2009 to 2020.

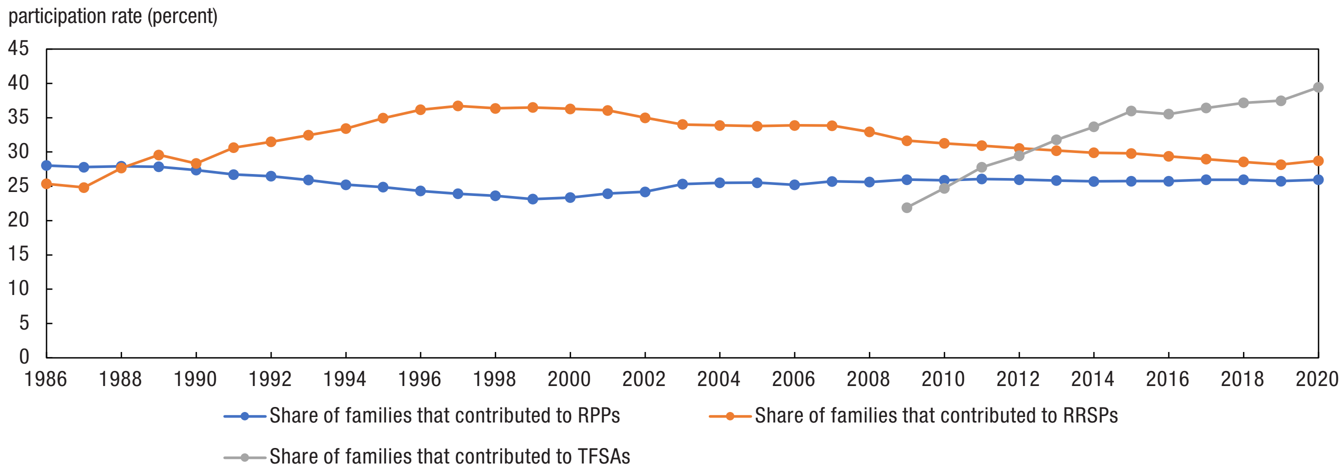
It was found that the participation rate in one or more of the registered accounts increased and that this growth was driven by rising participation in TFSAs. Participation rates to RRSPs declined, while the participation rate to RPPs remained flat during the period. TFSAs also accounted for an increasing share of the total contribution by Canadian families over time. By 2020, the share of the TFSA contribution reached a record high of 51.8%, exceeding the share of the RPP and the RRSP contributions combined.

However, contributions to the RRSPs and TFSAs, and the total contribution to all accounts, became more unequal over time. Families with a higher income and with members in core working age were more likely to participate in, and generally contributed more to, registered accounts than families with a lower income and younger or older families. Across the country, families in the Atlantic provinces and in Nunavut were less likely to participate in registered accounts and contributed less than families in the four largest provinces.

Further research may focus on examining how the contribution is related to contribution limits and contribution rooms available in RRSPs and TFSAs and the withdrawals made by the same individual from RRSPs and TFSAs over time. Studying the contribution behaviour of the same individuals over time may help to better understand if the contribution to one of the registered savings accounts crowds out the savings for another.

Appendix

Chart A.1
Historical participation rates in Registered Pension Plans, Registered Retirement Savings Plans and tax-free savings accounts



Note: RPP = Registered Pension Plan, RRSP = Registered Retirement Savings Plan and TFSA = tax-free savings account.
Source: Statistics Canada, Longitudinal Administrative Databank.

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