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TAX PRE-PAID SAVINGS PLANS

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TAX PRE-PAID SAVINGS PLANS

INTRODUCTION

The Tax Pre-paid Savings Plan (TPSP) is an income tax-supported savings plan proposed by various tax professionals and other observers to supplement existing federal tax measures that encourage personal savings. The tax treatment of TPSPs would be similar to that of Registered Education Savings Plans (RESPs), where contributions are not deductible from taxable income and future withdrawals of original contributions are not taxable. The income earned within the plan is sheltered from taxation until withdrawn. The words "tax pre-paid" refer to the fact that contributions to a TPSP would be made from after-tax income, and their withdrawal from the plan would not be taxed.

TPSPs have generated recent interest among various groups; notably, the C.D. Howe Institute has released several publications in support of the TPSP. Also, federal pre-budget consultations have received many submissions supporting the measure. The 2003 federal budget included a commitment to look at the TPSP concept to determine whether it "could be a useful and appropriate mechanism to provide additional savings opportunities for Canadians."(1) Subsequently, the federal Department of Finance organized consultation sessions and released a background document(2) in November 2003 to stimulate discussion on TPSPs. The 2004 federal budget acknowledged that "Finance officials consulted with interested groups, experts and academics on the tax treatment of savings and TPSPs,"(3) and that the measure is being reviewed along with other approaches.

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(1) Department of Finance, *The Budget Plan 2003*, 18 February 2003, p. 137.

(2) Department of Finance, Tax Policy Branch, Personal Income Tax Division, *Background Information on the Tax Treatment of Savings and Tax Pre-Paid Savings Plans (TPSPs)*, 21 November 2003.

(3) Department of Finance, *The Budget Plan 2004*, 23 March 2004, p. 372.

Many proponents of the TPSP believe that the government does not do enough to support personal savings for retirement purposes. The argument for more favourable tax treatment of savings is part of a larger debate on what should be used as a broad base for taxation to promote economic growth and reduce saving disincentives inherent in the current personal income tax system. Although not specifically targeted at low-income individuals, the TPSP is often cited as a vehicle to help low-income tax filers. This is so because the (tax-free) withdrawals of original contributions from the plan would not be used in calculations to claw back income-tested benefits available to seniors, such as the Guaranteed Income Supplement (GIS).

In light of the current attention given to support for personal savings, this paper will first outline the determinants and composition of savings in Canada. The next section examines the taxation of savings. The final section considers TPSPs as a retirement option and a general savings vehicle, with particular reference to a new trend in social policy whereby government programs encourage the accumulation of assets among low-income households as a step towards escaping from poverty.

SAVINGS

A. Determinants

When individuals save, they are essentially exchanging present consumption (i.e., spending – the purchase of goods and services) for future consumption. There are many different forms of savings, serving various future consumption needs and involving various levels of cash liquidity. These include savings accounts, home ownership, life insurance, trust funds, pension plans, and bonds. In addition, one could argue that acquiring job skills or an education is a form of savings, since it demands certain sacrifices of time, effort and money in exchange for the potential of higher future consumption. The decision to save is often based on the following motivations:

- *Life-cycle savings*: Since individuals typically do not work their entire lifespan, savings serve to even out lifetime consumption.
- *Bequest savings*: The intergenerational transfer of wealth provides for the future consumption of heirs.
- *Precautionary savings*: Savings can mitigate future uncertainty, such as loss of employment or health.
- *Opportunity savings*: The accumulation of wealth affords increased opportunities and increased ability to take risks.

Households or individuals who accumulate personal savings are likely influenced by a combination of the motivating factors listed above, and probably many more factors. Each individual determines the particular level of savings required to meet his/her future needs, based on available information,[(4)] which may include: present and estimated future income, public and private pension plans, household net worth, heirs, the perception of long-term sustainability of public programs, national debt, real and nominal rates of return, estimated lifespan, and the tax treatment of personal savings.

B. Composition and Canadian Net Worth

The level of savings in an economy is made up of both private (households and businesses)[(5)] and public (budget surplus) savings. Household savings are what is left of after-tax disposable income after accounting for what is consumed and transferred. These savings contribute to a household's net worth.[(6)]

Table 1
Distribution of Assets and Debts of Canadian Households (1999)[(7)]

	Total Assets/(Debt) ($billions)	Proportion (%)
Assets in Registered Plans	1,003	29.3
Other Financial Assets	418	12.2
Principal Residence	1,098	32.1
Equity in Business	328	9.6
Other Non-Financial Assets	577	16.8
Total Assets	**3,425**	**100.0**
Mortgage on Principal Residence	(302)	(8.8)
Other Debt	(140)	(4.1)
Net Worth	**2,983**	**87.1**

Source: Department of Finance Canada, derived from Statistics Canada, Cat. No. 13-595-XIE.

Note: Figures may not sum due to rounding.

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(4) There are economic models designed to provide insight into the saving behaviour of individuals given certain assumptions. An individual's sensitivity to a particular variable will depend on his/her predominant motivation for saving. Models vary in the assumed ability of individuals to choose a level of savings that suits their future financial needs.

(5) Business savings are corporate retained profits.

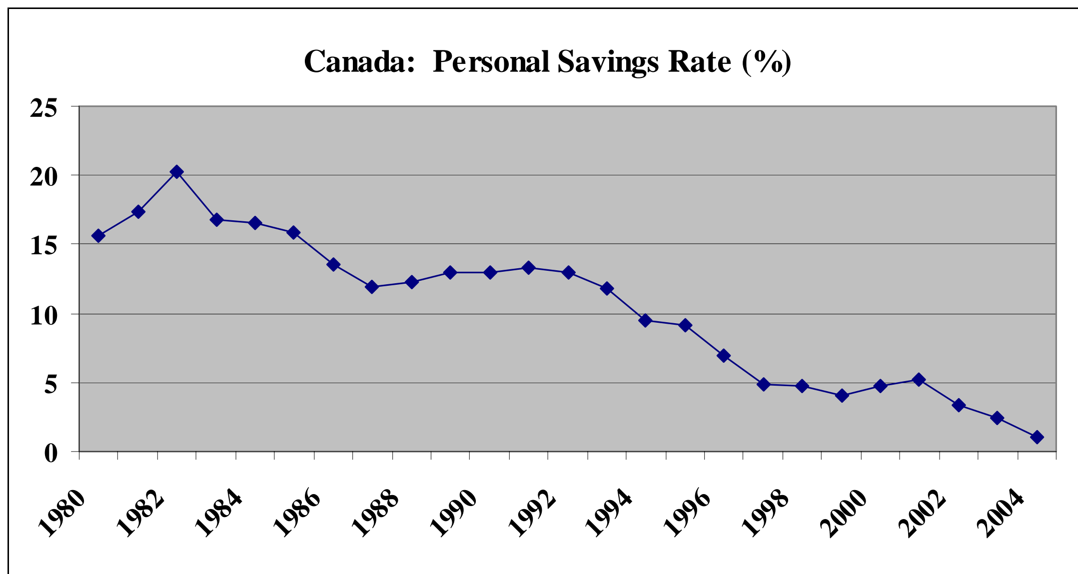
(6) Statistics Canada, *Recent Trends in Household Net Worth*, Cat. No. 13-605-XIE, http://www.statcan.ca/english/freepub/13-605-XIE/2003001/chronology/2004networth/.

(7) The data, the latest available, were derived from a 1999 Statistics Canada Survey of Assets and Debts.

As can be seen in Table 1, the predominant type of non-financial asset held by most Canadians is their principal residence, and registered plans make up the largest financial assets held by Canadians. These findings are not surprising, considering the tax advantages afforded to both of these assets.

Some analysts have expressed concern, however, over the implications of Canadians' low personal savings rate – meaning the difference between households' income and their expenditures on taxes and personal consumption. As Figure 1 makes clear, there has been a consistent decline in the Canadian personal savings rate over the last 20 years. In 1982, Canadians saved roughly 20 cents out of every dollar of disposable income, while in 2003 Canadians saved only 1.4 cents out of every dollar of disposable income.

Figure 1



Source: Statistics Canada.

TAXATION AND SAVINGS

The current federal personal income tax system offers many tax-supported incentives to encourage savings. However, tax treatment is not consistent across various types of savings.[8] For example, equity shares are treated more favourably than dividend income, and dividend income is treated more favourably than interest income.

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(8) Robin W. Boadway and Harry M. Kitchen, *Canadian Tax Policy*, 3rd ed., Canadian Tax Foundation, Toronto, 1999.

Tax treatment varies among types of savings in part because each saving incentive is introduced to achieve different economic and social policy goals. For example, the tax-free status of capital gains from the disposition of a principal residence is to encourage home ownership;[(9)] the taxation of only 50% of income derived from realized capital gains is designed to encourage investment; the RESP helps tax filers save for their dependants' education; and the deferred income taxes and sheltered returns within Registered Retirement Savings Plans (RRSPs) and Registered Pension Plans (RPPs)[(10)] encourage people to save for their retirement.

Despite the many existing tax incentives to encourage savings, proponents of tax measures such the TPSP advocate further incentives to increase personal savings. The push towards increased tax-saving incentives may be motivated in part by the persistent decline in the Canadian personal savings rate over the last two decades and its possible implications for the economy, as well as the social implications for the elderly. The following section summarizes the main arguments for expanding incentives that encourage savings, as cited by proponents of the TPSP: namely, the promotion of economic growth, tax neutrality, and a wider range of retirement savings options.

A. Savings, Taxation and Economic Growth

Taxation is necessary to fund public goods such as health care and social services. However, economists argue that all forms of taxation have associated economic costs. Many claim that taxation of savings imposes higher economic costs than other types of taxes,[(11)] as it is more distortionary:[(12)] in other words, revenue raised from the taxation of savings will reduce Gross Domestic Product (GDP) more than will an equal amount of revenue raised from other taxes such as consumption taxes. This is because an increase in the cost of saving discourages the accumulation of savings and thus reduces the pool of investment that stimulates economic growth.

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(9) Also, there is a further advantage to home ownership, in that imputed rental income from living in one's own home is not included in taxable income.

(10) An RPP is a registered pension plan established by an employer where both employer and employee contributions are tax-deductible, similar to the tax treatment provided for RRSPs.

(11) See, for example, Jonathan Kesselman and Finn Poschmann, *A New Option for Retirement Savings: Tax-Prepaid Savings Plans*, C.D. Howe Institute Commentary 149, C.D. Howe Institute, Toronto, February 2001; and Jack M. Mintz, "Taxation with Least Pain: A New Tax Structure for Canada," speech prepared for the Fraser Institute conference on taxation, Toronto, 11 October 2001.

(12) A tax distortion is a fiscal intervention that leads to disequilibrium of supply and demand factors in the economy. However, not all economists agree the market moves towards economic equilibrium.

Some economists are concerned that Canada's labour productivity may slow, due to today's aging workforce, the diminishing ratio of working-age population to total population, and increased competition from other nations for skilled migrants.[13] They therefore argue that, in order to help maintain Canada's current standard of living, it is necessary to introduce measures that encourage capital accumulation in order to spur investment and increase capital and labour productivity. One way to do this is to increase private savings.

Other economists, however, argue that it is not evident that an increase in private savings would correlate to an increase in domestic investment, much less an increase in productivity.[14] One reason is that capital in open world markets is highly mobile and can easily migrate across borders. Private savings in Canada may translate to foreign investment outside Canada. As a corollary, access to foreign capital plays a large role in the level of domestic investment.[15] However, relying on foreign capital may be risky. There is also some evidence of a home-country bias to investments derived from domestic savings,[16] and it has been argued that venture capital for small to medium-sized enterprises (SMEs) is less mobile and could be boosted by an increase in domestic savings.[17]

B. Savings and Neutrality of the Tax System

Canada relies on a mixture of taxes to raise revenue, but personal income is the foremost tax base used to fund public expenditure and redistribute income. It is often argued that, because returns on savings are included in the personal income tax base, the existing tax system favours current consumption over future consumption.[18] In other words, the current system discourages savings. The tax system's lack of neutrality with respect to present and

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(13) Yvan Guillemette, *Slowing Down with Age: The Ominous Implications of Workforce Aging for Canadian Living Standards*, C.D. Howe Institute Commentary 182, C.D. Howe Institute, Toronto, May 2003.

(14) There is some debate surrounding the overall link between savings, capital accumulation and investment decisions. Investors make investment decisions based on a number of factors, such as expected growth in consumer demand, that may have a much larger impact than the price of borrowing or equity. Therefore, some economists would favour policies that stimulate consumption and thus increase demand, as opposed to policies that encourage thrift.

(15) "The Shift Away From Thrift," *The Economist*, 7 April 2005.

(16) John F. Helliwell, and Ross McKitrick, "Comparing Capital Mobility Across Provincial and National Borders," *Canadian Journal of Economics*, Vol. 32, November 1999, pp. 1164-1173.

(17) Jack M. Mintz, "Taxing Future Consumption," in *The State of Economics in Canada: Festschrift in Honour of David Slater*, John Deutsch Institute and the Centre for the Study of Living Standards, McGill-Queens University Press, October 2001.

(18) Boadway and Kitchen (1999).

future consumption, given certain assumptions about how households save over a lifetime, is thus said to lead to lower levels of savings and lower GDP, as discussed in the previous section. For this reason, many economists advocate using consumption taxes rather than personal income tax as the principal tax base. The savings-enhancing effects of a consumption tax-based system can be approximated in the context of the current tax system if returns on savings are exempted or sheltered from taxation.[19] In fact, by allowing RRSP/RPP contributions to be deducted up-front from income and the returns on savings to be sheltered from taxation, the tax system has already moved closer to a consumption tax-based system. A broad-based consumption tax may also be a better indicator of economic "well being" than annual income since it is consumption, rather than income, that essentially yields satisfaction.[20]

The chief drawback to adopting a consumption tax base is that consumption taxes are regressive, meaning lower-income households pay proportionally (as a percentage of income) more than higher-income households. However, many proponents of consumption taxes argue that refundable tax credits (such as the GST tax credit) can impose any desired level of progressiveness.[21]

Critics also argue that reducing the taxation on savings could lead to increased reliance on labour income to fund existing public goods and services, which could have a negative impact on labour supply.

C. Personal Savings as a Part of the Retirement Income System

Savings are important from the perspective of meeting a household's future needs. Their favourable tax treatment would provide an incentive for households to accumulate savings and consequently alleviate pressure on government programs for the elderly in the future. It could thus be a means for the government to encourage tax filers to consider their future income stream after retirement. This is a matter of growing concern, since Canada will have to support an aging cohort with a smaller working-age population.

In Canada, the retirement income system is based on both public and private savings. The system rests on three key pillars:

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(19) Ideally, a consumption tax base would include the consumption of current services from durable goods such as housing and automobiles.

(20) Boadway and Kitchen (1999).

(21) Mintz (2001).

- *Old Age Security (OAS)*: The OAS is funded through general government revenues. It provides a monthly pension for seniors 65 years or older. An additional monthly benefit is provided under the GIS to pensioners with low incomes. Further, an Allowance and an Allowance for Survivor are provided to low- to modest-income seniors aged 60 to 64 to assist them until they become eligible for the OAS.

- *Canada Pension Plan (CPP) / Quebec Pension Plan (QPP)*: The CPP (and the QPP, which parallels the CPP) are funded though contributions by workers and employers. These compulsory contributions are based on employment earnings and are dedicated to funding the CPP/QPP program. Seniors aged 65 and older who have contributed to the CPP/QPP are eligible to receive a pension (additional benefits are provided for disabled contributors). Unemployed seniors with low incomes can receive CPP/QPP benefits as early as age 60.

- *RRSPs/RPPs*: RRSPs are the principal tax-assisted program that encourages private savings for retirement. Contributions to the plan are deducted from income and they reduce tax payable, while returns earned within the plan are sheltered from taxation. Withdrawals from the plan are taxable.

  Annual contributions are set at a limit of 18% of earned income, subject to a maximum threshold. Unused RRSP room may be carried forward to future years. Income within the plan must be converted to a Registered Retirement Income Program (RRIP) or an annuity when the holder is aged 69.

THE TAX PRE-PAID SAVINGS PLAN

A TPSP is a tax incentive designed to encourage savings by sheltering returns on savings within the plan while allowing no up-front income tax deductions for contributions to the plan. TPSP savings would be excluded from the calculation of means-tested social program entitlements. A TPSP serves to benefit individuals who expect to face higher effective marginal tax rates[22] during retirement years as compared to periods of contributions.

TPSPs in the United States and the United Kingdom

Both the United States and the United Kingdom offer a form of TPSP. In the United States, tax pre-paid Roth Individual Retirement Accounts (IRAs) were introduced in 1998. The United Kingdom first introduced tax pre-paid plans in 1987, which were later modified into Individual Savings Accounts (ISAs) in 1999. Both the ISAs and the Roth IRAs have set contribution limits. For Roth IRAs, eligibility is restricted to individual taxpayers with income under US$110,000. In the United Kingdom, there is no limit on earnings to be eligible to hold an ISA.

(22) A marginal tax rate is the tax paid on the receipt of an extra dollar of income, while an effective marginal tax rate includes the impact of means-tested benefits. For example, if a tax filer saves $1 and in consequence undergoes a clawback of $1 of GST, GIS or any form of public retirement entitlement, then this would represent an effective marginal tax rate of 100%.

The specific features of a TPSP could include annual contribution limits, and eligibility could be targeted below a certain income level. Penalties for early withdrawal could be used in order ensure that the TPSP savings are locked in. Proponents point out that a TPSP would not be a costly measure to introduce, since money contributed to the plan would be after-tax income.

A. Low-income Households

The feature of tax-free TPSP withdrawals is often promoted as means to provide low-income households with a tax-supported method to save, in a manner that would not jeopardize future public benefits. This is cited as the main policy goal by proponents of the TPSP in Canada, despite the fact that TPSPs in the United States and the United Kingdom are not targeted to low-income individuals.

TPSP proponents argue that the existing system of tax-supported savings, such as RRSPs/RPPs, penalizes lower-income households.[(23)] They claim that these households are futilely sacrificing their savings by contributing to RRSPs, since they receive few or no tax deductions and these savings may be entirely clawed back through income-tested benefits and means-tested public retirement programs such as nursing homes and other elderly social programs. Many TPSP advocates consider this a compelling reason for introducing a TPSP, even though contributions are only designed to be non-taxable upon withdrawal. Many means-tested social programs such as nursing homes are delivered by the provinces, and fall outside the authority of the income tax system and the jurisdiction of the federal government. Therefore, cooperation from the provinces would be necessary to make the TPSP a viable option for low-income households.

If implementation obstacles can be overcome and provincial cooperation achieved, then is there a compelling need for TPSPs for low-income households? Are they currently purchasing RRSPs and potentially being penalized for their frugality? It appears that they are. By examining the distribution of households near retirement (ages 55-64) by state of retirement savings, Richard Shillington found that 21% of near-seniors have no retirement assets, while 32% have futile RRSP savings because their retirement savings (including employer

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(23) Richard Shillington, *New Poverty Traps: Means-Testing and Modest-Income Seniors*, C.D. Howe Backgrounder No. 65, C.D Howe Institute, Toronto, April 2003.

pensions)[24] are less than $100,000.[25] These households may be subject to GIS clawbacks. Shillington notes that "our real sympathy should be for the 32 percent who have fallen for the bad advice coming from governments and the financial community: that everyone should save in an RRSP."[26] Further, these tax filers have less to gain from RRSP deductions that reduce taxable income, since they are taxed at low rates or not at all.

The reason that many of these tax filers continue to purchase RRSPs despite unsound financial outcomes may be, in part, due to the extensive RRSP marketing campaigns Canadians face every year by the financial sector. All Canadians, whether low- or high-income individuals, are exposed to these campaigns, which are endorsed by the government through preferential tax treatment for RRSPs/RPPs. Low-income tax filers may feel that they are falling behind if they do not purchase RRSPs, even if they derive little or no benefit from them.

B. Evaluation of the Tax Pre-paid Savings Plan

Annual contributions to an RRSP are set at a limit of 18% of earned income, to a maximum (in 2004) of $15,500. Over 35 years the RRSP limits are designed to allow individuals to save roughly 70% of average earned income for retirement purposes. Unused contribution room can be carried forward to future years. Under the current system, despite the tax advantages offered by RRSPs, most tax filers have a significant amount of unused RRSP/RPP room.[27] This may be because these individuals' retirement needs are partially being met by the CPP/QPP. Also, there is some evidence that many individuals do not require income replacement rates as high as 70%, since household expenditures diminish during retirement years.[28]

Some policy analysts have expressed concern that tax filers who would benefit the most from a TPSP would be those who already maximize RRSP/RPP contributions. These are

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(24) Does not include CPP/QPP entitlements.

(25) Shillington (2003).

(26) *Ibid.*

(27) In 2002, over 19 million tax filers had unused RRSP room, summing to over $366 billion. Contribution as a percentage of total available RRSP room was roughly 5%.

(28) Department of Finance, *Background Information on the Tax Treatment of Savings and Tax Pre-Paid Savings Plans (TPSPs)* (2003).

typically higher-income individuals[29] for whom the TPSP may not induce additional savings but rather provide a tax advantage for savings that would have been made in the absence of a TPSP. From this perspective, the TPSP may be an inefficient use of public funds to encourage savings.

There is also some question whether a TPSP would indeed provide an effective incentive to save for retirement, since – unlike RRSPs, where the tax filer pays income taxes on both the principal and interest upon withdrawal – holders of a TPSP can withdrawal their principal amount of contribution without increasing taxable income. There is thus less incentive to lock in savings. However, if lock-in provisions were introduced, it would be difficult to justify TPSPs as a savings vehicle that would be suitable for low-income individuals, who may need to withdraw from their savings at various times for pressing reasons. Also, since a TPSP offers no up-front tax deductions, it is not a measure suited to averaging taxable income over a lifetime (i.e., the life-cycle savings motivation).

Does the TPSP represent a good retirement savings option for lower-income households? As explained above, withdrawals of TPSP contributions are not taxed, and the returns earned within a TPSP are tax-sheltered. Once withdrawn, however, these returns are subject to taxation, and could thus result in a clawback of income-tested public retirement benefits. Accordingly, not all low-income households would be better off contributing to a TPSP. The benefit of a TPSP as a retirement vehicle depends on how much income the participant is left with during retirement. In some circumstances it would be more beneficial for low-income households to contribute to unsheltered savings.

Tables 2 and 3 illustrate this point by comparing the after-tax rates of return of a contribution to an RRSP, a TPSP and an unsheltered investment over 20 years. It is assumed that the investor is 50 years old and will retire at 69. The annual pre-tax rate of return is assumed to be 7% over 20 years. It is further assumed that the investor's taxable income is reduced by one income tax bracket when he/she retires. Table 2 indicates the rates of return for the investor under various investment choices, excluding the effects of benefit reductions such as GIS or

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(29) However, a case can made that RRSPs do not offer equitable treatment of higher-income tax filers for whom 18% of their annual income exceeds the maximum allowable contribution limit: since their allowable contribution represents a lower percentage of income, they cannot meet the targeted 70% replacement rate.

OAS clawbacks. Table 3 includes the effects of benefit reductions. Figures in both tables are derived from the federal Department of Finance.[(30)]

Table 2

Net Rates of Return: Excluding the Effects of Benefit Reductions

Income Level	RRSP	TPSP	Unsheltered
Under $32,000	8.34%	7.00%	6.07%
$32,000-$64,000	7.66%	7.00%	5.39%

Source: Finance Canada.

As Table 2 shows, for both income levels, investment in RRSPs generates higher returns than either TPSP or unsheltered investments. Even if the assumption of a reduction in income tax bracket at retirement is removed, RRSPs provide a 7% return which is equal to the TPSP. Therefore, if an individual has RRSP tax room, there is no advantage to investing in a TPSP. This finding also holds for all income levels above $64,000.

Table 3

Net Rates of Return: Including the Effects of Benefit Reductions

Income Level	RRSP	TPSP	Unsheltered
Under $32,000	4.65%	4.55%	5.20%
$32,000-$64,000	6.61%	6.57%	4.48%

Source: Finance Canada.

Table 3 includes the impact of income-tested benefits. Unsheltered savings generate higher rates of return than TPSPs, because the returns within the TPSP are taxable upon withdrawal and there is a consequent clawback of income-tested benefits. For both income levels, RRSPs provide higher rates of return than TPSPs, although this would not be the case if the taxpayer remained at the same income tax bracket during retirement.

Finally, there is a concern that although a TPSP would have minimal impact on government revenues since only returns on savings would be tax-sheltered, it could nevertheless pose significant administrative complexity, as experienced in the United States.[(31)]

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(30) Department of Finance, *Background Information on the Tax Treatment of Savings and Tax Pre-Paid Savings Plans (TPSPs)* (2003). Figures assume an Ontario taxpayer in 2003.

(31) *Ibid.*

C. Component of a Social Program Strategy

As described in the previous sections, there are other motives for saving, besides spreading earnings into the retirement period or bequest planning. Low-income families may want to save to purchase assets such as a car or an education that may lead to further work opportunities. Saving may provide a means to escape from poverty. These families may also be motivated to reduce the hardship from potential job loss or disability.

Some policy analysts have recommended the development of social programs that would provide not only income subsidies to meet the immediate welfare needs of low-income individuals but also subsidies to help accumulate assets. Asset-based social programs may improve stability and create a means for recipients to improve their welfare.(32) Furthermore, since middle- and higher-income earners overwhelmingly absorb the substantial tax expenditures that support generous tax incentives to encourage savings, some analysts claim that it is justifiable merely on grounds of equity to support savings incentives directed at low-income individuals.

TPSPs have been suggested as a part of an overall strategy to develop asset-based social programs.(33) TPSPs could be delivered and administered by the federal government and therefore be made available in all provinces and territories, which could supplement them through the use of direct matching grants or other features that reflect the particular needs and circumstances of each jurisdiction. It would be essential to have the participation of the provinces so that the returns generated by a TPSP were not offset by clawbacks under provincial and territorial means-tested social programs.

Currently, the federal government funds a program entitled *learn*$ave which is designed to contribute $3 for every $1 contribution from a participant into an Individual Development Account. The funds are limited to training, education and small business start-ups. The 2004 Budget announced Canada Learning Bonds (CLBs), which provide up to $2,000 of education savings to families entitled to the National Child Benefit – families with incomes up to $35,000.

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(32) Andrew Jackson, *Asset-Based Social Policies – A* “*New Idea*” *Whose Time Has Come?* Caledon Institute of Social Policy, Ottawa, March 2004.

(33) Finn Poschmann and William B. P. Robson, *Saving's Grace: A Framework to Promote Financial Independence for Low-Income Canadians*, C.D. Howe Institute Backgrounder No. 86, Toronto, November 2004.

The key features of *learn*$ave and CLBs are that these measures are targeted at the poor, and the uses of the funds are limited to areas such as education or small business start-ups. A TPSP would likely be less restrictive, but it could be designed to target low- to modest-income tax filers. It is difficult to predict what level of participation would result. However, *learn*$ave engendered only modest participation rates(34) despite generous direct subsidies.

CONCLUSION

The TPSP would expand the personal savings options available under the tax system. It has been promoted as a means to help correct the bias towards current consumption within the tax system and to further promote saving behaviour in order to stimulate investment and economic growth. While there are opposing views concerning the link between the accumulation of personal savings and economic growth, the TPSP's provision for tax-free withdrawals of contributions might provide beneficial saving options to income earners who expect to face high effective marginal tax rates due to means-tested programs.

Depending on his/her individual circumstances, however, a tax filer might find it more financially prudent to invest in unsheltered savings than in a TPSP. Some analysts have also suggested that a TPSP would primarily benefit high-income individuals, who have the means to save, and that it might not generate new savings since it would simply provide tax benefits to savings that would normally have occurred.

Initially seen as a measure to supplement retirement income, the TPSP has been promoted in the context of initiatives that endorse asset-based social programs, in order to provide further means for individuals to escape from poverty. Cooperation from the provinces and territories would be essential, since they are responsible for delivering a majority of social programs and they determine the criteria that trigger clawbacks under means-tested programs.

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(34) Social Research and Demonstration Corporation, *Helping People Help Themselves: An Early Look at learn$ave*, Ottawa, May 2004.