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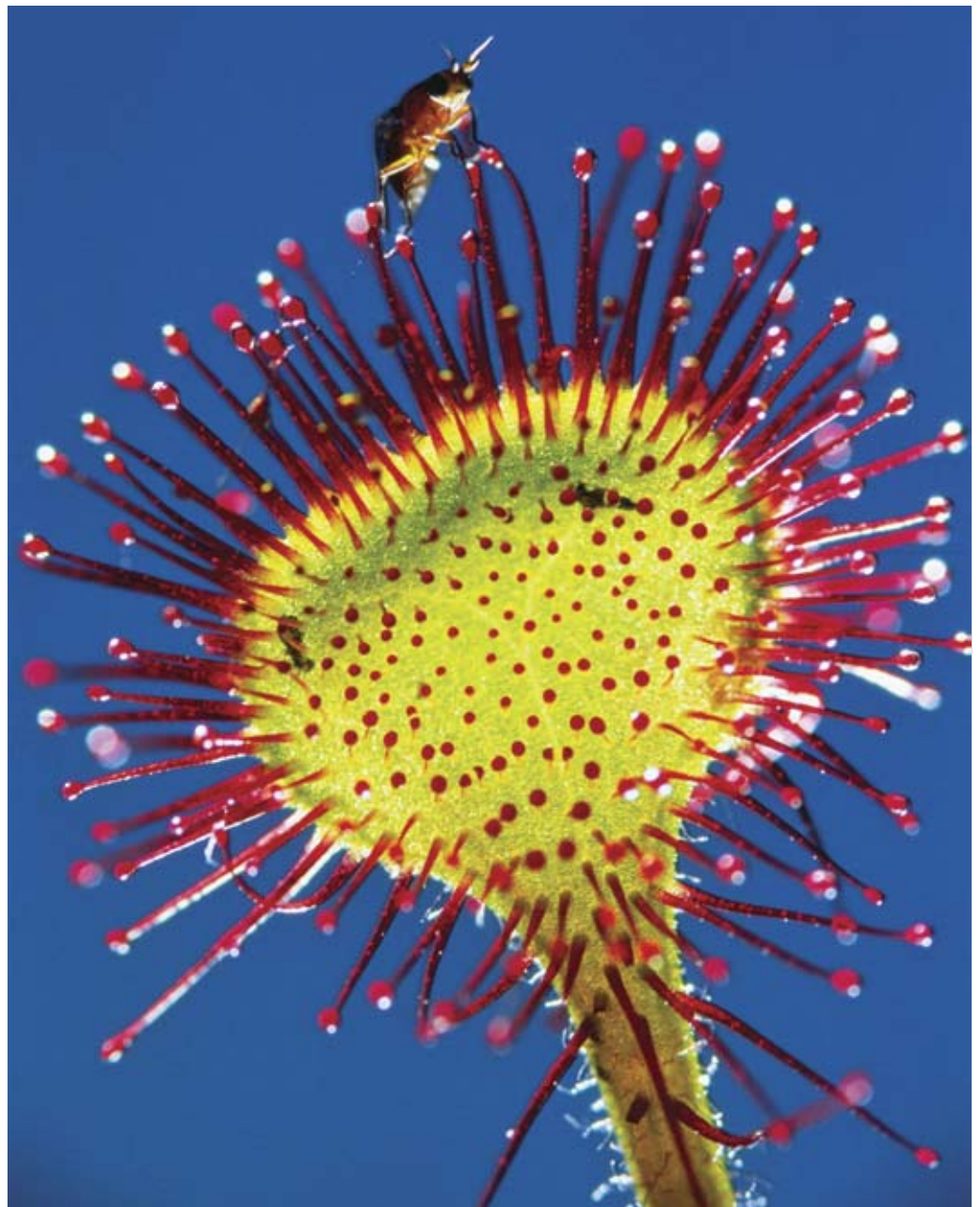
# PERSPECTIVES

ON LABOUR AND INCOME

**DECEMBER 2004**

Vol. 5, No. 12

- DURATION OF  
NON-STANDARD  
EMPLOYMENT
  
- USING RRSPS  
BEFORE RETIREMENT



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### Perspectives on Labour and Income

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.	not available for a specific reference period
...	not applicable
p	preliminary
r	revised
x	confidential
E	use with caution
F	too unreliable to be published

# Highlights

## *In this issue*

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### ■ Duration of non-standard employment

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- While most working Canadians are standard workers, the majority of new entrants to the labour market, or re-entrants following a period of joblessness, are initially non-standard workers. About 60% of individuals who moved from no employment in 1999 into employment in either 2000 or 2001 originally found non-standard jobs.
- Once engaged in non-standard employment, the majority of workers remain in such jobs for an extended period of time. More than half (54%) of the 5.0 million people in non-standard jobs in 1999 maintained this form of employment throughout the following two years.
- A high proportion of persons who were self-employed in 1999 were in the same type of work two years later (68% of own-account workers and 76% of employers). In contrast, only 31% of full-time and 18% of part-time temporary workers held the same type of job in both 1999 and 2001.
- Persons in temporary full-time jobs in 1999 were the most likely of all types of non-standard workers to have found standard employment by 2001 (39%, compared with only 7% of employers).

### ■ Using RRSP savings before retirement

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- The practice of withdrawing money from RRSPs before retirement is not restricted to lower-income groups. Between 1993 and 2001, over 40% of those in the middle income deciles with RRSPs made withdrawals.
- Overall, less than 40% of those withdrawing money from an RRSP in 1993 had repaid the money by 2001. The proportion was even lower for older age groups (22% for those 50 to 59).
- Close to one-fifth of withdrawers aged 50 to 59 took out relatively large amounts (\$10,000 or more) and were less likely to repay them.
- People whose spouse died, who lost their job involuntarily, or who started a new business withdrew substantial sums (\$10,000 or more) more frequently.

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#### Perspectives

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# Duration of non-standard employment

*Costa Kapsalis and Pierre Tourigny*

Over 6 in 10 working Canadians are employees with permanent, full-time jobs—the traditional standard form of employment in this country. The rest have part-time or temporary jobs, or are self-employed. While many workers deliberately choose non-standard forms of employment—for example, mothers working part time until their children are old enough to attend school, or older workers reducing their workweeks as a transition into retirement—many others would opt for permanent, full-time employment if it were available.

The incidence of non-standard work has been rising in recent years (Vosko et al. 2003). This has drawn more attention to some of the possible negative consequences of non-standard work, including employment insecurity, lower earnings, and limited or no access to employer benefits (such as pension plans) or social programs (such as Employment Insurance).

The economic consequences of non-standard work depend greatly on whether the situation is short-term or long-term. Hence, a longitudinal perspective is crucial.

This article examines the duration of non-standard jobs using the Survey of Labour and Income Dynamics (SLID) from 1999 to 2001. It looks at three distinct groups of non-standard workers: the self-employed (with and without paid help), employees with permanent part-time jobs, and temporary employees who work either full or part time (see *Data source and definitions*).

## Extent of non-standard work

In 2001, about 38% of all employed Canadians were non-standard workers in their main job: 15% worked in temporary jobs, 14% were self-employed, and 9%

were permanent part-time employees. Among the self-employed, 9% were own-account workers, and 5% had employees (Table 1). In addition, about 1 in 10 employees in permanent, full-time paid positions reported some non-standard employment. This was the result of multiple jobholding or switching from one type of job to another during the year.<sup>3</sup>

## Economic consequences

A primary concern regarding non-standard work is its potentially adverse financial consequences. For example, persons in temporary or part-time jobs work fewer hours, on average, than standard workers, and have lower hourly and annual earnings (Table 2). In 2001, temporary part-time workers worked less than 800 hours (compared with 1,961 hours for standard workers), and reported hourly earnings of only \$11.58 (versus \$18.89), and annual earnings of \$10,900 (versus \$40,900).<sup>4</sup>

Non-standard workers were also more likely to experience unemployment during the year—particularly temporary full-time workers (41% in 2001). They were also less likely to receive Employment Insurance (EI) benefits (except temporary full-time workers, half of whom received benefits).

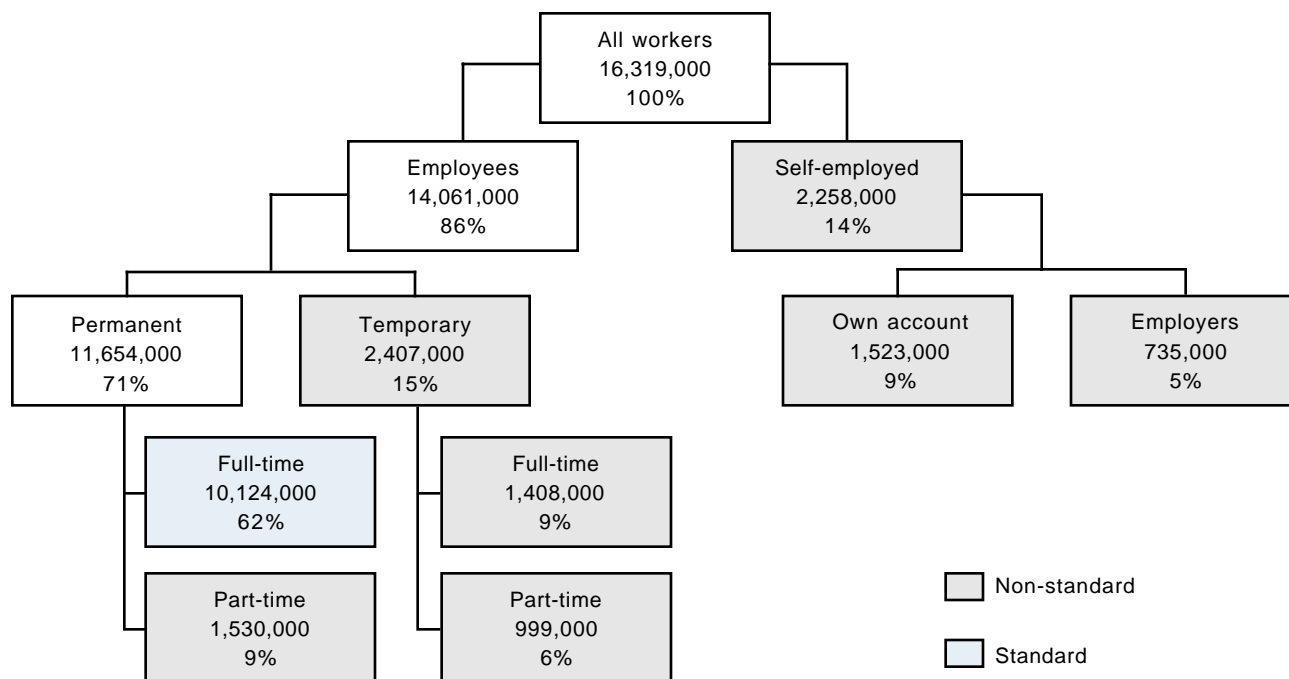
In terms of average family income, own-account workers were the worst off (\$52,500 in 2001); they also experienced the highest incidence of low income (15%).<sup>5</sup> Employers reported the highest average family income (almost \$77,000), followed by standard workers (just over \$64,000). Only 3% of standard workers lived in low-income families, however, compared with 8% of employer families.<sup>6</sup>

## Persistence

The duration, or persistence, of non-standard work is of particular interest. Although some people prefer to work at temporary or part-time jobs for extended periods, or choose to be self-employed, others see such jobs as mere stepping stones to permanent full-time

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**Table 1: Classification of workers aged 16 to 69, by type of main job**

Source: Survey of Labour and Income Dynamics, 2001

work. Unfortunately, some individuals find themselves involuntarily working in some form of non-standard employment for years.

The evidence suggests that once engaged in non-standard employment, the majority of workers remain in such jobs for an extended period of time. More than half (54%) of the 5.0 million people in non-standard jobs in 1999 maintained this form of employment throughout the following two years. An additional 9% were non-standard workers in 1999 and 2001, but not during the interim year (Table 3).

In contrast, only 17% of those in non-standard jobs in 1999 were engaged in standard employment the following year, while 12% were not working at all. However, by 2001, almost one in four non-standard workers two years earlier had obtained standard employment (23%), while 14% were not working. (An

alternative aspect of persistence is discussed later in the article in the context of the personal and job characteristics of non-standard workers.)

### A gateway to standard employment

Non-standard employment is often a method of entering the workforce. Some 60% of individuals who moved from no employment in 1999 into employment in either 2000 or in 2001 initially found non-standard jobs (Table 4). Specifically, of the 1.2 million Canadians with jobs in 2000 who had been jobless in 1999, some 57% found non-standard employment. Similarly, in 2001, 69% of the 391,000 workers who had been jobless during the preceding two years were employed in non-standard jobs.

In contrast, the overall incidence of non-standard employment at any given time (38%, on average, in 2001) tends to be much lower than that of people

### Data source and definitions

The longitudinal **Survey of Labour and Income Dynamics** (SLID), carried out since 1993, features questions on labour market participation patterns over time. SLID follows a panel of individuals over a six-year period, collecting detailed information for up to six jobs held during the course of each year. The survey also provides detailed information on family structure, personal and family income, educational attainment, disability, immigration status, and a wide range of other socio-economic characteristics. (Persistent non-standard employment cannot be measured using static snapshots such as those provided by the monthly Labour Force Survey.)

This study relies on SLID data from 1999 to 2001—for two reasons: First, prior to 1999, information was not collected on whether jobs were temporary or permanent.<sup>1</sup> Second, this time period doubles the sample size by using the overlapping years of two panels: 1996-2001 and 1999-2002.

SLID provides labour market information for all individuals aged 16 to 69. The 2001 sample used for the cross-sectional analysis portion of this article covers all individuals in this age range. The sample for the longitudinal analysis portion, however, is restricted to those aged 16 to 67 in 1999 (18 to 69 in 2001) who were survey respondents in all three years. Jobs were excluded from both samples if values were missing for any of the three key variables used to identify standard/non-standard employment: paid versus self-employment, permanent versus temporary work, and full- versus part-time job).

**Non-standard jobs** are all forms of self-employment (with or without paid help), part-time jobs (less than 30 hours weekly), and temporary jobs.

**Non-standard workers:** Workers whose main job during the year was non-standard. The main job corresponds to the one with the most annual hours of work.

In the literature, the self-employed with paid help are often excluded from the definition of non-standard workers. This study includes all the self-employed to provide a sharper contrast with the traditional notion of standard work—that is, full-time, permanent employees. Some researchers exclude voluntary part-time workers, self-employed professionals (for example, lawyers or doctors), or those working non-standard schedules (such as rotating or night shifts, or working 'on call'). One proposed broad definition of a standard worker is one who has one employer, works full year, full time on the employer's premises, enjoys extensive statutory benefits and entitlements, and expects to be employed indefinitely (Vosko et al. 2003). All other workers are non-standard. Other definitions have included other groups, such as multiple jobholders (Krahn 1995) and shift workers (Sunter 1993).

**Persistent non-standard workers:** Those whose main job was non-standard in all three years.<sup>2</sup> This article examines two persistence rates: the proportion of non-standard workers in 1999 who remained in non-standard jobs during the following two years, and those who were in these types of jobs throughout the 1999-2001 period as a proportion of non-standard workers at any time during the period.

**Own-account workers** are self-employed and have no paid help.

**Employers** are self-employed with paid help.

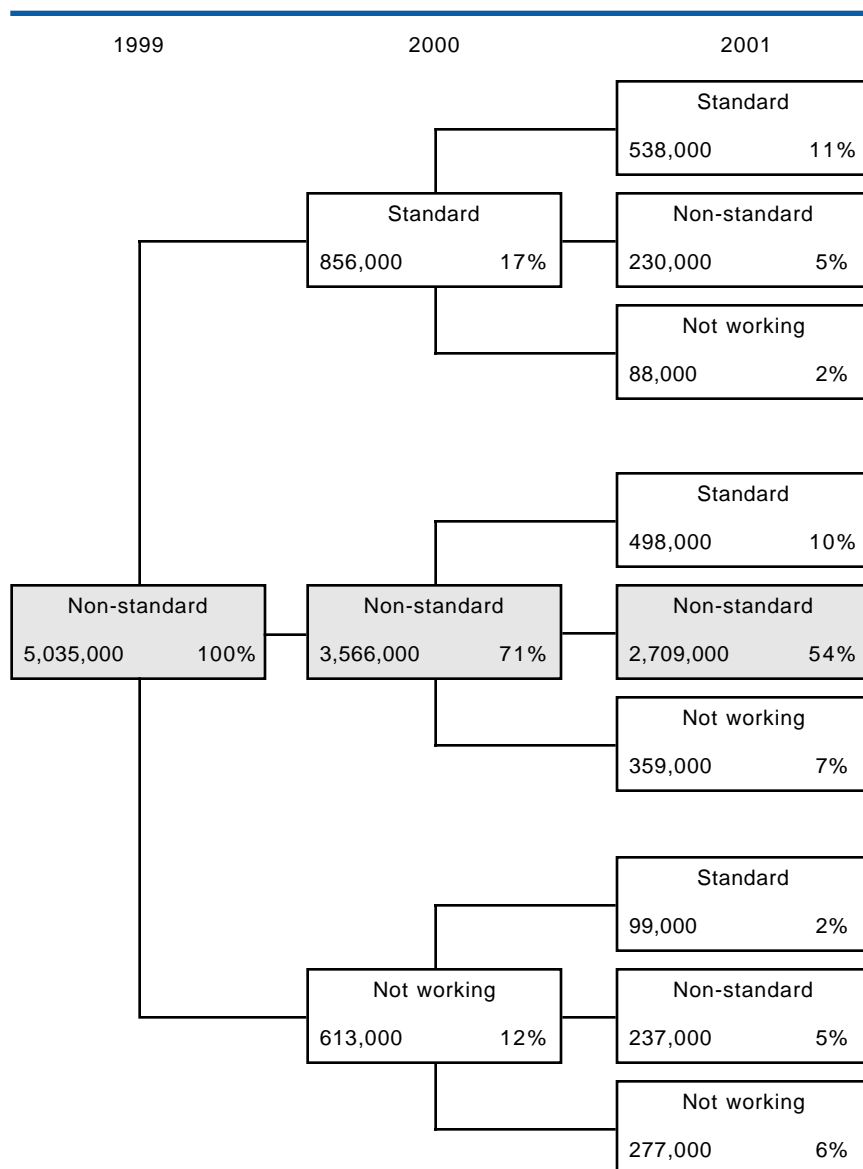
**Temporary employment** includes seasonal work; non-seasonal temporary, term or contract jobs; casual jobs; and work obtained through a temporary help agency.

**EI beneficiary-unemployed ratio:** The percentage of unemployed during the year who received Employment Insurance.

**Table 2: Economic aspects of non-standard work**

	Standard jobs	Total	Non-standard jobs				
			Self-employed		Temporary		Permanent part-time
			Own account	Employer	Full-time	Part-time	
<b>Work and earnings</b>							
Average annual work hours	1,961	1,410	1,922	2,540	1,372	782	906
Average hourly earnings	18.89	13.17	16.99	19.26	13.65	11.58	13.20
Average annual earnings	40,900	22,100	24,400	55,600	19,100	10,900	15,100
<b>Unemployment</b>							
Unemployment rate	10	17	F	F	41	21	12
EI beneficiary-unemployed ratio (%)	41	34	F	F	49	16	14
<b>Family income</b>							
Average family income (\$)	64,000	60,100	52,500	76,800	56,600	63,800	60,600
Below the low-income cut-off (%)	3	11	15	8	9	10	9

Source: Survey of Labour and Income Dynamics, 2001

**Table 3: Labour market transitions of non-standard workers in 1999\***

Source: Survey of Labour and Income Dynamics, 1999-2001  
\* Individuals aged 16 to 67 in 1999.

making a transition from no job into non-standard employment. This finding indicates that while most working Canadians are standard workers, the majority of new entrants to the labour market, or re-entrants following a period of joblessness, are initially non-standard workers.

Non-standard jobs are a common way of entering the labour market for several reasons. Among employers, a temporary or part-time job may be a way of recruiting and screening new employees, who may eventually be

offered standard employment. From a young person's point of view, a temporary job may be the easiest kind of work to find, particularly a first job. Part-time jobs offer a compromise solution for many students seeking to balance school and work. They are also popular among women re-entering the labour force who may wish to earn some income but still have time to deal with family responsibilities.

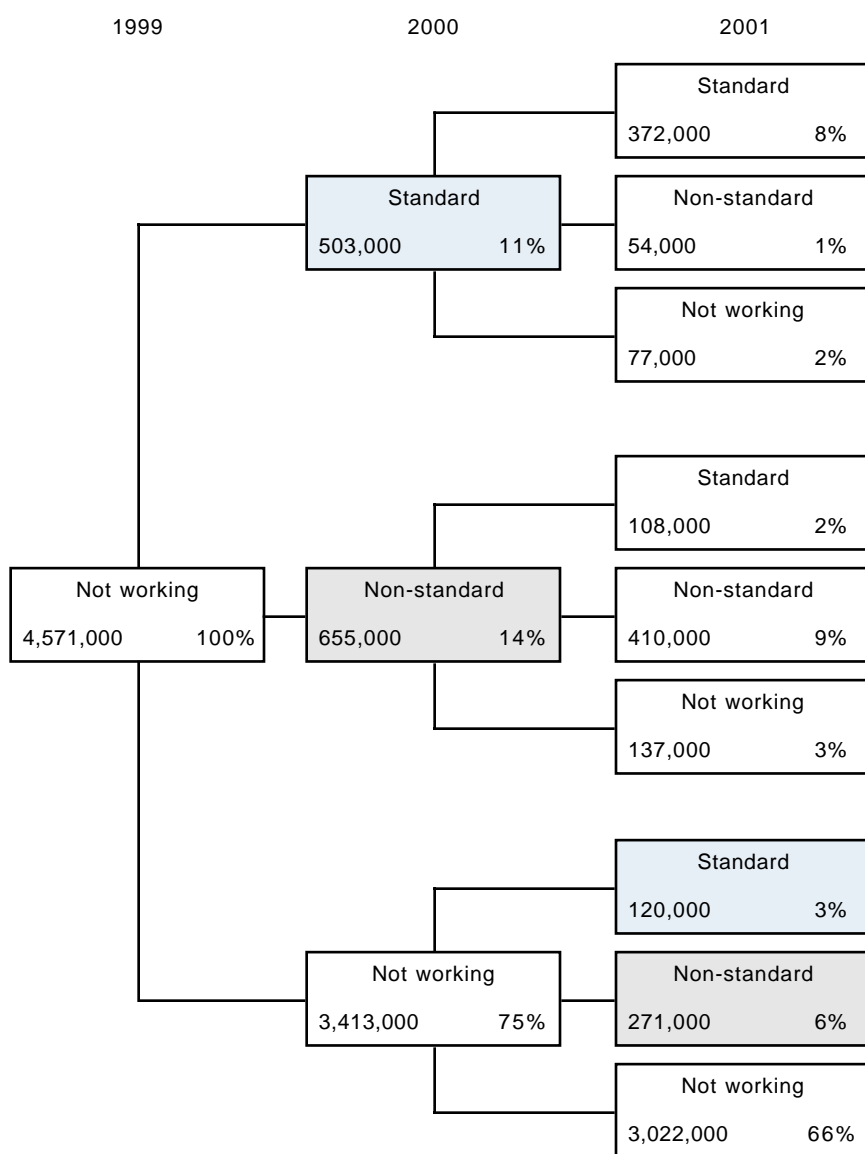
### Non-standard workers

People in non-standard jobs were more likely to be younger or older than those in standard jobs. In 2001, 27% of non-standard workers were aged 16 to 24, and 15% were 55 to 69; the corresponding estimates for standard workers were 10% and 9%. Among younger workers, non-standard work may be preferred by those still in school, or seen as a temporary situation by those with little or no experience in the labour market. In contrast, some older workers may be opting for part-time, temporary or self-employed jobs as a stepping stone from a permanent full-time job to retirement.

Non-standard workers were somewhat more likely than standard workers to be women: 53% and 43% respectively (Table 5). In terms of life phase, 64% of standard workers versus 44% of non-standard workers were individuals aged 25 to 54 without preschool children. The most notable differences were found among full-time students, who made up 5% of standard and 24% of non-standard workers, and men 25 to 54 without preschool children (35% and 20%). In contrast, women without preschool children represented only



**Table 4: Labour market transitions of persons not employed in 1999\***



Source: Survey of Labour and Income Dynamics, 1999-2001

\* Individuals aged 16 to 67 in 1999.

Note: The grey boxes identify transitions from no work to non-standard work; the blue boxes identify transitions from no work to standard work.

a slightly higher proportion of the standard workforce than the non-standard (29% versus 24%).

In terms of educational attainment, non-standard workers were more likely to have less than a high school

diploma (20% compared with 13%) or some form of post-secondary schooling (20% versus 14%). This arises, in part, because many in these education categories are still attending school, and

employed students tend to work in part-time or temporary jobs. In contrast, well over half (56%) of standard workers had a college certificate or diploma or a university degree, compared with 45% of non-standard workers.

Region of residence had little effect on the distribution of standard and non-standard jobs. Some differences existed, however, according to the size of a worker's area of residence. Higher proportions of non-standard jobs were found in rural and smaller urban areas (population under 30,000); the opposite was noted in urban areas with a population of 100,000 or more.

A different perspective on the frequency of non-standard forms of employment is offered by incidence rates (Table 5). While 38% of all employed workers aged 16 to 69 held non-standard jobs in 2001, the rate for specific subgroups varied extensively—from a low of 28% among 25 to 34 year-olds to a high of 62% among those 16 to 24, many of whom would likely be students. Indeed, the incidence of non-standard work among employed full-time students was extremely high, at 76%. In contrast, the incidence of non-standard work among women aged 25 to 54 with pre-school children was only marginally higher than the national average (42% versus 38%).

Non-standard employment rates were relatively high among older workers, at 53% for working women aged 55 to 69 and 47% for their male counterparts—again suggesting that many older workers may be opting for non-standard work as a form of semi-retirement following a full-time permanent career.

**Table 5: Demographic profile of standard and non-standard workers**

	Standard	Non-standard	Incidence of non-standard work
		%	
<b>All individuals aged 16 to 69</b>	<b>100</b>	<b>100</b>	<b>38</b>
<b>Age</b>			
16 to 24	10	27	62
25 to 34	26	17	28
35 to 44	30	22	31
45 to 54	25	20	33
55 to 69	9	15	49
<b>Sex</b>			
Men	57	47	34
Women	43	53	43
<b>Life phase</b>			
Full-time students, all ages	5	24	76
Youth 16 to 24, excluding full-time students	7	6	35
Men 25 to 54 with preschool children	9	5	24
Men 25 to 54 without preschool children	35	20	26
Men 55 to 69	6	8	47
Women 25 to 54 with preschool children	5	6	42
Women 25 to 54 without preschool children	29	24	33
Women 55 to 69	4	6	53
<b>Education</b>			
Less than high school	13	20	50
High school diploma	18	14	33
Some postsecondary	14	20	47
College certificate or diploma	37	29	33
University degree	19	16	35
<b>Region of residence</b>			
Atlantic	7	8	43
Quebec	24	23	37
Ontario	40	37	36
Prairies	17	18	40
British Columbia	12	13	40
<b>Size of area of residence</b>			
Rural	9	14	49
Urban			
Under 30,000	11	14	44
30,000 to 99,999	11	11	38
100,000 to 499,999	17	15	36
500,000 and over	52	45	35

Source: Survey of Labour and Income Dynamics, 2001

The incidence of part-time, temporary or self-employed jobs was highest in the Atlantic provinces (43%) and lowest in Ontario (36%). The incidence was also particularly high in rural areas—almost half, many of whom are likely self-employed in agriculture or some other primary industry.

## Non-standard jobs

The greatest disparity between the distributions of standard and non-standard workers by industry was found in manufacturing, which accounted for 20% of the former but only 6% of the latter in 2001 (Table 6). In contrast, people in non-standard jobs were somewhat more likely to be found in the primary industries, accommodation and food services, construction, or trade; 42% were employed in one of these industries, compared with 28% of standard workers. Many of these industries have a strong seasonal component, which entails hiring workers on a temporary basis (for example, farming and construction from spring to fall, and retail trade during the Christmas season). Others, such as food services, and again retail trade, are characterized by a fluctuating demand for employees throughout the day or week—a situation that is handily met by part-time staff.

Although firms with 100 or more employees accounted for the majority of standard (63%) as well as non-standard (52%) workers (excluding the self-employed), only one in five standard workers were found in companies with fewer than 20 employees, compared with one in three non-standard workers. Employees in non-standard jobs were also less likely to be unionized (26% compared with 35%).

Three-quarters of standard workers had a regular daytime schedule, compared with only half of non-standard workers. Almost 4 in 10 of the latter group were on rotating or split shifts, or had on-call or other irregularly scheduled work.

The incidence of non-standard employment varied widely across industries. At least half of all workers in the primary and utility

**Table 6: Job profile of standard and non-standard workers**

	Standard	Non-standard	Incidence of non-standard work
		%	
<b>All individuals aged 16 to 69</b>	<b>100</b>	<b>100</b>	<b>38</b>
<b>Industry of main job</b>			
Primary* and utilities	4	8	57
Construction	5	8	50
Manufacturing	20	6	15
Wholesale and retail trade	14	17	42
Transportation and warehousing	5	4	32
Finance, insurance, real estate and leasing	6	4	31
Professional, scientific and technical	6	7	43
Business, building and other support	3	5	50
Educational services	7	7	37
Health care and social assistance	10	11	40
Information, culture, arts, entertainment and recreation	4	6	46
Accommodation and food	5	9	51
Other services	4	5	47
Public administration	7	4	25
<b>Firm size**</b>			
Under 20 employees	19	32	38
20 to 99	18	16	24
100 to 499	15	12	23
500 and over	48	40	23
<b>Union member**</b>			
Yes	35	26	22
No	65	74	31
<b>Work schedule**</b>			
Regular daytime	74	51	21
Regular evening or night	6	12	41
Rotating or split shift, on-call or irregular	20	38	43

Source: Survey of Labour and Income Dynamics, 2001

\* Includes agriculture, forestry, fishing and mining.

\*\* Employees only.

industries; accommodation and food services; construction; and business, building and other support services had non-standard jobs in 2001. In comparison, only 15% of jobs in manufacturing and 25% in public administration were non-standard.

Non-standard jobs were more common in small firms (under 20 employees) than in larger firms.

They were also more common among non-unionized workers and those not working a regular daytime schedule.

### Persistence depends on demographics...

Of individuals who experienced at least one year of non-standard work over the 1999-2001 period, 38% were non-standard workers in

all three years (Table 7).<sup>7</sup> However, persistence varied by age, sex and life phase. For example, among 45 to 69 year-olds, half reported having a non-standard job over the three years, compared with 25% of those 25 to 34. In contrast, the persistence of non-standard work was relatively low among youth not attending school full time (only 14%)—an indication that this type of work is typically a temporary phase preceding permanent, full-time employment.

Educational attainment was not a strong factor affecting persistence, although non-standard workers with a university degree were somewhat more likely to have held such jobs for the entire three-year period.

### ... and type of non-standard employment

Yet another facet of persistence is revealed by comparing a non-standard worker's employment status in 1999 with their status in 2001, regardless of any labour market activities during 2000 (Table 8).<sup>8</sup> Overall, almost half (47%) of non-standard workers in 1999 were in the same type of non-standard job two years later, but the percentage varied according to the type of non-standard work.

A high proportion of those self-employed in 1999 were in the same type of work two years later (68% of own-account workers and 76% of employers).<sup>9</sup> The remaining individuals were almost as likely to have found some other type of non-standard employment as they were to have standard jobs or no work at all.

Temporary part-time workers, on the other hand, were the least likely to continue in the same type of employment (only 18%). In most

**Table 7: Persistence of non-standard work by demographic characteristics**

	Non-standard work	
	One or two years out of three	All three years
	%	
<b>All individuals aged 16 to 69</b>	<b>62</b>	<b>38</b>
<b>Age</b>		
16 to 24	72	28
25 to 34	75	25
35 to 44	58	42
45 to 54	52	48
55 to 69	52	48
<b>Sex</b>		
Men	60	40
Women	64	36
<b>Life phase</b>		
Full-time students, all ages	66	34
Youth 16 to 24, excluding full-time students	86	14
Men 25 to 54 with preschool children	56	44
Men 25 to 54 without preschool children	55	45
Men 55 to 69	49	51
Women 25 to 54 with preschool children	66	34
Women 25 to 54 without preschool children	62	38
Women 55 to 69	56	44
<b>Education</b>		
Less than high school	63	37
High school diploma	60	40
Some postsecondary	64	36
College certificate or diploma	62	38
University degree	57	43

Source: Survey of Labour and Income Dynamics, 1999-2001

The relatively low persistence of both full- and part-time temporary work is not surprising. Since temporary work is of limited duration by definition, many incumbents migrate to a new job once their old one has ended. Often, that new job is full-time and permanent. Permanent part-time work may tend to be of longer duration, however, when it is voluntary and related to a particular phase in life—for example, while a person is attending school or taking care of young children. It can also be a transitional form of employment for an older worker approaching retirement. Finally, self-employment may last the longest, on average, because it is often a voluntary long-term career choice made at a relatively young age—although some older workers opt for this type of job in semi-retirement as well.

### Summary

Non-standard employment is fairly common in Canada, accounting for almost two in five workers aged 16 to 69. Concerns about non-standard work arise because workers in these jobs tend to have low

cases, these people moved into another form of non-standard employment (36%) or a standard job (26%). Nevertheless, temporary part-time jobholders in 1999 were the most likely to have no job at all in 2001 (19%).

Temporary full-time workers in 1999 were the most likely to have found standard work by 2001 (39%), followed by permanent part-timers (28%). Nevertheless, almost 4 in 10 such employees remained in the same kind of non-standard job.

**Table 8: Employment status of non-standard workers two years later\***

	Type of work in 2001			
	Non-standard		Standard	No work at all
	Same type	Other type		
	%			
<b>Type of non-standard work in 1999</b>				
All non-standard workers	47	16	23	14
Self-employed own account	68	10	10	12
Self-employed employers	76	8	7	9
Temporary full-time	31	13	39	17
Temporary part-time	18	36	26	19
Permanent part-time	38	20	28	14

Source: Survey of Labour and Income Dynamics, 1999-2001

\* Workers aged 18-69 in 2001.

earnings and are more likely to live in low-income families. They also face greater risk of unemployment and enjoy fewer employer- or government-sponsored benefits.

Adding fuel to these concerns is the persistence of non-standard employment among the people who hold these jobs. For example, of the five million Canadians in non-standard jobs in 1999; half remained in such jobs throughout the following two years. Older workers (45 to 69) were particularly susceptible.

The potentially negative aspects of non-standard work are mitigated by many individuals choosing self-employment, or temporary or part-time jobs. Moreover, non-standard work often serves as a gateway to standard employment. For example, some 60% of individuals without jobs in 1999 who were subsequently employed in 2000 or 2001 initially found non-standard work. And the temporary nature of non-standard work among youth indicates that for this group non-standard work is typically a stepping stone to permanent full-time employment.

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**Perspectives**

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**■ Notes**

- 1 Job permanency is determined by the following two SLID questions: (a) Is [the] job permanent, or is there some way that it is not permanent? If not permanent, the respondent is also asked: (b) In what way is [the] job not permanent? Response choices are seasonal job; temporary, term or contract job (non-seasonal); casual job; work done through a temporary help agency; other (specify).
- 2 Some excluded individuals who appear to have experienced less than three years of non-standard work would have been counted as non-standard workers if their employment data prior to 1999 or following 2001 had been available.
- 3 Virtually all non-standard workers had only non-standard jobs that year.
- 4 Differences in hourly wages and annual earnings among the various groups of non-standard workers, as well as between standard and non-standard workers generally, reflect the diverse job and worker characteristics associated with these groups (for example, varying distributions by age, education and occupation).

5 Low-income status is based on Statistics Canada's after-tax low-income cut-offs (LICOs): income thresholds at which a family would typically spend 20 percentage points more of its income than the average family on the necessities of food, shelter and clothing. LICOs vary according to family and community size.

6 The greater prevalence of low income among employers than among standard workers suggests greater income inequality in the former group.

7 This concept of persistence is different from the one discussed earlier. According to the previous concept, 54% of Canadians who were non-standard workers in 1999 (the denominator used in those calculations) remained non-standard workers throughout the remaining two years. In this section, the denominator used to determine the persistence of non-standard work is the number of workers with non-standard jobs at some time in the 1999-2001 period; for example, the overall rate of persistence using this method (38%) was calculated by dividing the number who were non-standard workers during all three years by the total number who were non-standard workers during one, two, or all three years.

8 The interim year (2000) is ignored because including it would complicate the display of results.

9 Self-employment was more common among male than among female non-standard workers (48% versus 26%) and virtually non-existent among youth.

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# Using RRSPs before retirement

*Philip Giles and Karen Maser*

Like many other countries, Canada has a government incentive to encourage personal saving for retirement. Most Canadians are aware of the benefits of RRSPs (registered retired savings plans), both the immediate tax advantage and the tax-sheltered compounding of capital. However, not everyone is in a position to save in this manner, nor is the money saved always used as a source of income in retirement. Despite the consequences of withdrawing money from RRSPs (savings are reduced and tax must be paid), many people do just that. This article uses two different sources to examine premature RRSP withdrawals<sup>1</sup> between 1993 and 2001, looking at whether major life events such as a marital separation, death of a spouse, or loss of a job affect this behaviour (see *Data sources and definitions*).

RRSPs constitute an essential component of Canada's retirement income system, especially for those whose income from government-sponsored retirement programs alone will make it difficult for them to maintain the same standard of living (see *Canada's retirement income system*). Understanding who uses RRSPs, and who needs or opts to withdraw funds from them, can help identify those who may not be financially prepared for retirement.

## Many withdraw funds from RRSPs

Close to two-thirds of taxfilers aged 20 to 59 as of the end of 1992 contributed to an RRSP at least once between 1993 and 2001. However, during this same period, over one-quarter made at least one withdrawal (Table 1). Taking those withdrawing as a percentage of those known to have invested in an RRSP (because they made a contribution or a withdrawal over this period), the withdrawal rate jumps to 39%.<sup>2</sup>

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Decidedly, income is a factor. Just 9% of taxfilers in the lowest income decile withdrew money over the period. This increased to just over 30% in each of the 6<sup>th</sup> to 9<sup>th</sup> income deciles. Not surprisingly, lower-income people are also much less likely to contribute to an RRSP. As a percentage of those known to have an RRSP, three-quarters in the lowest decile, and over half in the second lowest, withdrew money. Not only are lower-income people less likely or able to save, they are much more likely to make withdrawals.

For many in the lowest income deciles, income from the Old Age Security/Guaranteed Income Supplement, and the Canada and Quebec Pension Plans will more than replace pre-retirement earnings (see *Earnings replaced by OAS/GIS and C/QPP*). Hence, additional income from RRSPs may not be required to maintain their standard of living. Since this is unlikely

**Table 1: Taxfilers making RRSP contributions or withdrawals in at least one year**

Income decile	Contributors	Withdrawers	
		Taxfilers	RRSP holders*
		%	
<b>Total</b>	<b>64.7</b>	<b>26.4</b>	<b>38.9</b>
Lowest	4.3	9.0	75.7
Second	14.8	12.1	56.5
Third	26.7	15.5	48.5
Fourth	44.1	21.6	44.3
Fifth	60.8	27.8	43.2
Sixth	71.8	31.6	42.3
Seventh	79.7	34.2	41.6
Eight	85.7	33.8	38.6
Ninth	90.1	31.1	34.1
Highest	94.9	25.1	26.3

Source: Canada Revenue Agency, PA/RRSP file, 1993-2001  
\* Contributed or withdrew from 1993 to 2001.

## Data sources and definitions

The **Pension Adjustment/Registered Retirement Savings Plans (PA/RRSP) file** was created by Statistics Canada from information provided by the Canada Revenue Agency. This longitudinal file contains basic demographic information for every taxfiler, as well as information about their participation in registered pension plans (RPPs) and RRSPs (contributions and withdrawals for RRSPs). The file is the only source of longitudinal information on savings for retirement through these two programs. This analysis looked at the years 1993 to 2001.

The **Survey of Labour and Income Dynamics (SLID)** is a longitudinal household survey designed to capture changes over time in the economic well-being of individuals and families. Individuals are interviewed annually for six years to collect information about their labour market experiences, income, and family circumstances. The first reference year was 1993. A second panel of respondents was introduced for 1996, halfway through the life span of the first. When the first panel ended, a third one began for the reference year 1999. This pattern of rotating, overlapping panels will continue, with a new panel every three years. Each panel comprises approximately 15,000 households, for a total of about 31,000 adults aged 16 and over.

### Who is included?

This analysis focused on the population 20 to 59 years of age—those most likely to be receiving employment income and therefore eligible to contribute to RRSPs. Many under 20 were still in school and many over 59 already retired. Including these ages could distort the data. (Information from SLID for the year 2001 indicates that only about one-third of those 16 to 19, and 13% of those over 59, reported their major activity as 'working' or 'looking for work.')

A further refinement excluded anyone with pension income (OAS/GIS, C/QPP, RRSP or RPP). An income tax return (T1) needed to have been filed in 1993 and 2001 but could have been missing in some of the intervening years. If so, income and RRSP contributions or withdrawals were assumed to be zero.

For tables covering the entire periods, age was determined as of the end of 1992. For those tables with information for each year, age was determined as of the end of the year in question.

Because SLID excludes the territories, these were also excluded from the PA/RRSP file.

### Life events

Data for all seven possible three-year periods between 1993 and 2001 were used (starting with 1993 to 1995 and ending with 1999 to 2001). The results for the seven periods were then aggregated.

The population at risk was identified according to the situation at the end of the first year of the three-year period. In defining this population, it would have been desirable to include the criterion that the person had money in an RRSP account, but this information was not collected.

For purposes of this analysis, the life event would have occurred in the second year of the period, and the RRSP withdrawal would have taken place during one of the last two years.

The analysis focused only on major income earners (MIE) of economic families at the end of the first year, and their spouses or common-law partners. RRSP withdrawals, if any, were for the individual—in this case either the MIE or the spouse. Further analysis could be done to take into account RRSP withdrawals by either the MIE or the spouse following these life events.

### Separation or divorce

Population at risk: Persons living with a spouse; the analysis was done separately for the MIE and the spouse of the MIE.

Definition of event: Couple were living together at the end of the first year but not at the end of the second year.

### Death of a spouse

Population at risk: Persons living with a spouse; the analysis was done separately for the MIE and the spouse of the MIE.

Definition of event: Couple were living together at the end of the first year, but one of them died during the second year.

### Involuntary job loss

Population at risk: Persons with a job; the analysis was done separately for the MIE (with or without a spouse) and any spouse of the MIE.

Definition of event: Person had a job at the end of the first year but lost their job involuntary (i.e., did not quit) during the second year. The job lost was the person's main job.

### Returning to school full time

Population at risk: Persons who were not full-time students; the analysis was done separately for the MIE (with or without a spouse) and any spouse of the MIE.

Definition of event: Person was not a full-time student during the first year but became one during the second year.

RRSP withdrawal: The use of RRSP funds as part of the Lifelong Learning Plan (LLP) was excluded since this is a feature of the RRSP program. The LLP allows RRSP withdrawals of up to \$20,000 to finance training or education. No tax penalty is incurred as long as the money is repaid within a prescribed period.

### Buying a house

Population at risk: Persons who did not own their dwelling; the analysis was restricted to MIEs, since the spouse would have experienced the same life event.

Definition of event: Residence was not owned at the end of the first year but was owned at the end of the second year.

RRSP withdrawal: The use of RRSP funds as part of the Home Buyers Plan (HBP) was excluded since this is a feature of the RRSP program. The HBP plan allows first-time home buyers to withdraw up to \$20,000 from their RRSP with no tax penalty for the purchase of a home as long as they repay their RRSP within a prescribed period.

### Birth of a child

Population at risk: Persons living with a spouse; the analysis was restricted to MIEs, since the spouse would have experienced the same life event.

Definition of event: Couple had or adopted a child during the second year.

### Starting a business

Population at risk: No extra restrictions were placed on this population; the analysis was for MIEs only, since in many situations the spouse would have experienced the same life event.

Definition of event: Person started a self-employed job during the second year.

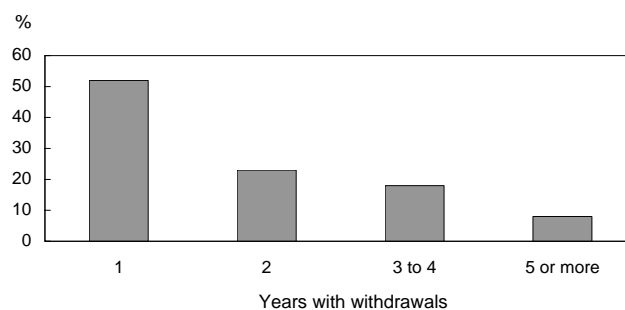
to be the case for those in the higher income deciles, the implications of taking money out of an RRSP may be greater. However, although the percentage of RRSP holders who withdrew money declines somewhat as income increases, even in the seventh income decile over 40% made a withdrawal at least once between 1993 and 2001.

### Many withdraw more than once

The PA/RRSP file shows not only whether a withdrawal was made but also whether it occurred more than once. Indeed, almost half (48%) of those withdrawing money did so in more than one year, while a quarter removed funds in at least three of the nine years (Chart A). These people may have had unexpected expenses, or they may not have viewed their RRSP as a means of long-term savings, using it instead to reduce current taxes or set aside money for periods of lower income (LeBlanc 2002). The self-employed are particularly subject to income volatility and may be more likely to use RRSPs in this way (Palameta 2003). Unfortunately, the PA/RRSP file cannot identify the self-employed or the reason for the withdrawal.

The use of RRSPs to smooth income is clear: People who frequently withdraw money still make contributions—even more often than others. Over half of those who made three or more withdrawals contributed in at least five of the nine years. A much lower proportion (38%) of all taxfilers contributed that frequently (Table 2).

**Chart A: Almost half of those withdrawing from RRSPs between 1993 and 2001 did so in more than one year.**



Source: Canada Revenue Agency, PA/RRSP file

### Are withdrawals repaid?

Do frequent withdrawers contribute more often in an attempt to pay back the money they have withdrawn? This is difficult to determine since reasons for contributing or withdrawing are not available. However, it is possible with the PA/RRSP file to see whether, in the time frame of this study, people returned the amounts they withdrew by making subsequent contributions. All contributions and withdrawals were converted to 2001 dollars, since simply returning the exact dollar amount of the withdrawal would not be enough to account for the return the amount would have

**Table 2: Pattern of RRSP withdrawals and contributions**

	Years of contribution											
	Total		Zero		One		Two		3 or 4		5 or more	
	'000	%	'000	%	'000	%	'000	%	'000	%	'000	%
<b>Years of withdrawal</b>	<b>11,414</b>	<b>100</b>	<b>4,029</b>	<b>35</b>	<b>920</b>	<b>8</b>	<b>756</b>	<b>7</b>	<b>1,329</b>	<b>12</b>	<b>4,381</b>	<b>38</b>
None	8,401	100	3,672	44	562	7	430	5	742	9	2,996	36
One	1,562	100	230	15	220	14	176	11	283	18	653	42
Two	694	100	66	10	75	11	83	12	149	21	322	46
Three or more	757	100	60	8	64	8	68	9	155	21	410	54

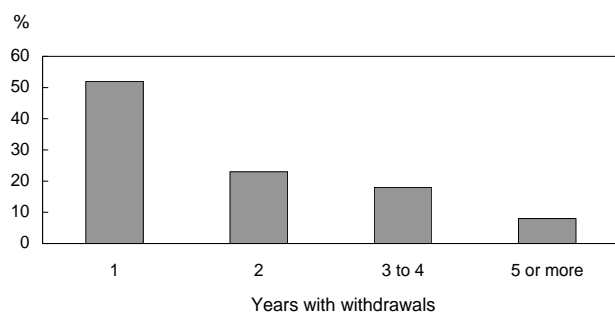
Source: Canada Revenue Agency, PA/RRSP file, 1993-2001



earned had it remained in the RRSP. Repaying amounts withdrawn places an individual in a different situation from someone not making a withdrawal: The latter could continue to make further contributions and accrue earnings on them.<sup>3</sup>

Although many of those withdrawing money from an RRSP make subsequent contributions, it can take years to repay the withdrawal. Three years after withdrawing from their RRSP, just one-quarter had repaid the amount. This increased to about one-third after five years, but was still under 40% by the end of the study period (Chart B).

**Chart B: Even eight years after a withdrawal, less than 40% had repaid their RRSP.**



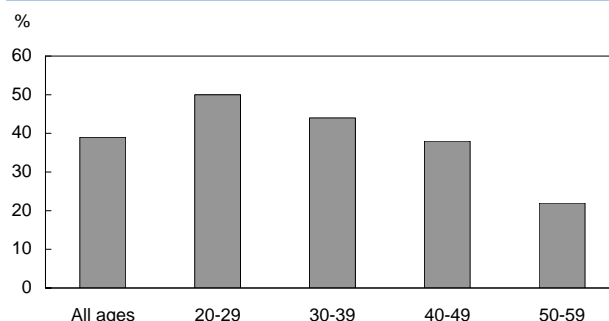
Source: Canada Revenue Agency, PA/RRSP file

Those who were older (50 to 59) when they made their first withdrawal in 1993 were least likely to have returned the money eight years later. (Chart C). By 2001, just 22% were back to the situation they had been in prior to the withdrawal in 1993, not taking into account any additional contributions that could have been made, along with accrued earnings. For older individuals, this could have serious implications in terms of the amount of income they can generate from their RRSP.

### All ages equally likely to make withdrawals

Even though older people are closer to retirement, they are just as likely to take money out of their RRSPs. Approximately one-quarter of those in all age groups, from 20 through to 59 as of the end of 1992, made a withdrawal between 1993 and 2001. In fact, older withdrawers were somewhat more likely to make multiple withdrawals, although the difference is not

**Chart C: Only 22% of those 50 to 59 making a withdrawal in 1993 had repaid it by 2001.**



Source: Canada Revenue Agency, PA/RRSP file

pronounced. Close to 29% of withdrawers aged 50 to 59 made at least three withdrawals, compared with 23% of those 20 to 29 (Table 3).

### Withdrawers up sharply over the period

Although the proportion of taxfilers taking money out of their RRSP in 2001 may not appear to be large at 6.7%, it was almost double the 3.8% in 1993. In comparison, the proportion contributing to RRSPs rose only 18.4% over the period (Table 4). In 2001, just over one million withdrew money and 5.7 million contributed.

While the number of people withdrawing increased, the median withdrawal amount fell significantly—over 46%.<sup>4</sup> The median withdrawal in 2001 was \$1,600. In comparison, the median contribution increased 11% to \$2,600.

**Table 3: RRSP withdrawals by age\***

	All ages	20-29	30-39	40-49	50-59
	Taxfilers (%)				
<b>Withdrawals</b>	26.4	26.3	27.3	25.6	23.8
One	13.7	14.4	14.0	12.7	11.6
Two	6.1	5.9	6.2	6.2	5.4
Three or more	6.6	6.0	7.1	6.7	6.8
	Withdrawers (%)				
<b>Withdrawals</b>	51.8	54.8	51.2	49.5	48.8
One	23.0	22.5	22.8	24.1	22.7
Two	25.1	22.7	26.0	26.3	28.5
Three or more					

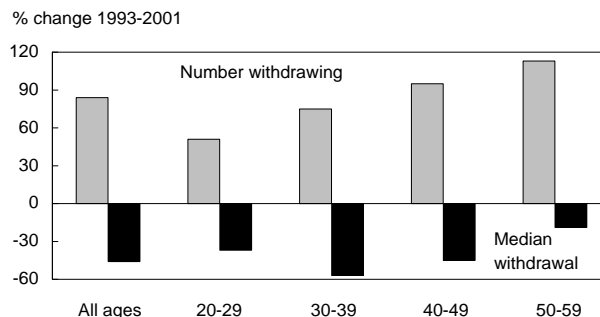
Source: Canada Revenue Agency, PA/RRSP file, 1993-2001  
\* As of the end of 1992.

**Table 4: RRSP withdrawers and contributors**

	Taxfilers	
	'000	%
<b>1993</b>		
Withdrew	570	3.8
Contributed	4,509	30.4
<b>1994</b>		
Withdrew	620	4.1
Contributed	4,739	31.3
<b>1995</b>		
Withdrew	743	4.8
Contributed	5,182	33.8
<b>1996</b>		
Withdrew	805	5.2
Contributed	5,477	35.4
<b>1997</b>		
Withdrew	863	5.5
Contributed	5,623	36.0
<b>1998</b>		
Withdrew	929	5.9
Contributed	5,627	35.7
<b>1999</b>		
Withdrew	939	6.1
Contributed	5,645	36.6
<b>2000</b>		
Withdrew	1,067	6.6
Contributed	5,800	35.9
<b>2001</b>		
Withdrew	1,049	6.7
Contributed	5,657	36.0
		%
<b>Change 1993-2001</b>		
Withdrew	84.0	76.3
Contributed	25.5	18.4

Source: Canada Revenue Agency, PA/RRSP file, 1993-2001

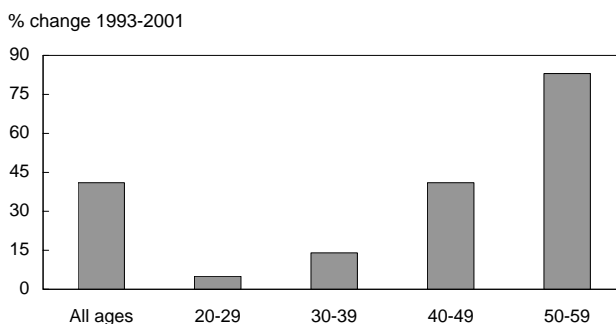
These trends varied greatly by age (Chart D). Those 50 to 59 experienced a more modest decline in the median withdrawal amount (-19%), together with the biggest jump in the number of persons withdrawing. As a result, the total amount withdrawn by people in this age group increased 83%. This is consistent with the results of an earlier study, which looked at the period from 1991 to 1994 (Frenken 1996). In contrast, the increase in the amount withdrawn by younger age groups was much smaller (Chart E). This was due to both a more modest increase in the number withdrawing and a much larger drop in the median withdrawal. This was most pronounced for those 30 to 39; their median withdrawal was down 57%.

**Chart D: Number withdrawing from RRSP up, but median withdrawal down.**

Source: Canada Revenue Agency, PA/RRSP file

### Younger individuals withdraw smaller amounts

Amounts withdrawn shed some light on the reasons for differences between age groups. Although more younger people have been withdrawing funds from their RRSP, they tend to withdraw much smaller sums than in the early 1990s. This is most striking for those 30 to 39: In 1993, just 8% took less than \$500 out of their RRSP, compared with just over 30% in 2001 (Table 5). Although less pronounced, the same trend can be seen for those 20 to 29. Perhaps younger age groups are perceiving saving for retirement as important and attempting to minimize the amounts they remove. Certainly, earlier studies have shown that more young people are investing in RRSPs (Aldridge 1997) and that, income and other variables held

**Chart E: Increase in total withdrawn from RRSPs much greater for those 50 to 59.**

Source: Canada Revenue Agency, PA/RRSP file

## Canada's retirement income system

**Old Age Security (OAS)** guarantees a minimum income to all persons 65 or older who meet prescribed residency requirements, regardless of work history. The benefit is gradually reduced if net income exceeds a certain amount (about \$55,300 in 2001) and eliminated altogether when income reaches about \$90,000. Additional benefits are provided to low-income seniors through the Guaranteed Income Supplement (GIS) and the Allowance. The latter is paid to spouses/partners (aged 60 to 64) of OAS pensioners. Benefits are paid from the federal government's consolidated revenue fund; specific contributions to this program are not required.

**Canada and Quebec Pension Plans (C/QPP)** are intended to replace a portion of employment earnings. The plans cover almost all workers and are compulsory for those 18 and over. Both employers and employees contribute (the self-employed pay both shares), providing a benefit equal to about 25% of the average wage (as measured by Statistics Canada's Survey of Employment, Payrolls and Hours), up to a specified maximum. This benefit is paid at 65, although individuals can opt to receive it as early as 60 (reduced) or as late as 70 (augmented).

OAS/GIS and C/QPP are designed to provide a basic income for seniors. As of January 2001, a single person 65 or older with no other income received an annual OAS/GIS benefit of about \$11,330; if the person was also receiving C/QPP, this increased to just under \$16,000.

In 2001, the median earnings of individuals heading into retirement (aged 45 to 54) were \$30,842; OAS/GIS and C/QPP would have replaced about 50%. (This calculation was done assuming people had contributed to the C/QPP for the maximum required years and therefore likely inflates the replacement rate.) For couples with at least

one partner aged 45 to 54, median earnings in 2001 were \$64,962. These two programs would replace just over 40% of those earnings.

The percentage of earnings required to maintain a similar standard of living in retirement depends on a number of factors and can vary considerably, depending on the circumstances of the individual or couple. Financial planners often use 70% as a rule of thumb (HRDC 2001), although this has been the subject of much debate. The income provided by OAS/GIS and C/QPP would give many an income replacement rate far below this percentage. This increases the importance of the third component of the retirement income system:

**Employer pensions and personal savings:** Employer-sponsored registered pension plans (RPPs) are commonly used by employers to provide their employees with an income in retirement. However, employers are not obligated to provide a plan, and only about a third of employees belong to one. Benefits vary widely. Contributions are made by the employers and, if the plan is contributory, by the employees as well.

Employees who do not belong to RPPs and the self-employed must save for retirement on their own if they wish to supplement income from OAS/GIS and C/QPP. Registered retirement savings plans (RRSPs) provide one means to do this. To encourage saving, no tax is paid on either the amount contributed (to a prescribed maximum) or on the investment return on these funds. However, tax is paid when funds are withdrawn.

RRSPs, therefore, are a critical component of the retirement income system. Withdrawing money from them has consequences: Tax is immediately payable and retirement savings are diminished.

### Maximum monthly and annual benefits from OAS/GIS and C/QPP for persons 65 or older, January 2001

	Monthly	Annual
		\$
C/QPP – age 65	775	9,300
OAS	431	5,176
GIS – single person	513	6,152
GIS – spouse of OAS pensioner	334	4,007
OAS + GIS – single person, no other income		11,328
OAS + GIS – couple, both receiving GIS, no other income		18,367
OAS + C/QPP + GIS, reduced – single person, no other income		15,978
OAS + C/QPP – couple, both receiving maximum C/QPP, income too high for GIS, no other income		28,953

*Note: OAS/GIS annual amounts assumes that the monthly rate in effect in January applies for the entire year.*

constant, they are more likely than older people to contribute to them (Palameta 2003). Another factor could be the stronger economy at the end of the decade, which may have reduced the need to use savings from RRSPs.

That older individuals more commonly withdraw larger amounts may not seem surprising, given they would have accumulated more in their RRSP. What is

striking for those 50 to 59 is the amounts being withdrawn. In 2001, close to one-third of withdrawers removed at least \$6,000—this at a time in their lives when returning money to an RRSP could prove quite difficult and, as shown, is not likely to happen. This age group represented 20% of all those withdrawing money in 2001, up slightly from 17% in 1993. What would make people take this action at this stage

**Table 5: RRSP withdrawals, by age\***

	All ages	20-29	30-39	40-49	50-59
	% of withdrawers				
<b>1993</b>					
Less than \$500	8.2	16.2	8.4	6.1	4.7
\$500 to \$999	9.4	17.6	10.0	6.6	6.1
\$1,000 to \$1,999	19.1	26.5	21.7	16.2	13.0
\$2,000 to \$2,999	14.2	14.4	16.0	12.5	13.3
\$3,000 to \$3,999	10.0	8.5	10.6	10.1	10.0
\$4,000 to \$4,999	7.0	5.3	7.1	7.4	7.4
\$5,000 to \$5,999	7.5	3.8	6.8	8.7	9.8
\$6,000 to \$9,999	10.9	5.9	10.2	12.6	14.3
\$10,000 or more	13.8	2.5	9.3	19.9	21.7
<b>1997</b>					
Less than \$500	15.5	25.3	19.7	11.5	7.4
\$500 to \$999	11.2	17.4	12.7	9.1	7.3
\$1,000 to \$1,999	18.8	24.2	19.5	17.3	16.3
\$2,000 to \$2,999	11.8	12.4	12.1	11.4	11.4
\$3,000 to \$3,999	8.2	6.6	8.0	8.9	8.8
\$4,000 to \$4,999	5.9	3.7	5.5	6.2	7.7
\$5,000 to \$5,999	6.4	3.3	5.6	7.6	8.4
\$6,000 to \$9,999	9.7	4.2	8.3	11.6	13.4
\$10,000 or more	12.4	2.5	8.6	16.5	19.8
<b>2001</b>					
Less than \$500	22.7	31.5	30.2	18.9	11.1
\$500 to \$999	13.4	20.8	15.7	11.5	8.0
\$1,000 to \$1,999	17.9	21.2	18.1	17.9	15.7
\$2,000 to \$2,999	9.7	10.6	8.9	10.0	10.2
\$3,000 to \$3,999	6.6	5.2	5.7	7.2	8.2
\$4,000 to \$4,999	6.0	3.7	5.1	6.6	7.6
\$5,000 to \$5,999	4.7	2.0	4.1	4.9	6.9
\$6,000 to \$9,999	8.5	3.9	6.4	9.9	12.9
\$10,000 or more	10.4	1.3	5.9	13.3	19.0

Source: Canada Revenue Agency, PA/RRSP file

\* As of the end of 1992

of their life? The Survey of Labour and Income Dynamics provides information on changes to individual and family circumstances that could precipitate the removal of money from an RRSP.

### Life events linked to withdrawals

Major life events often have financial implications, and RRSP withdrawals may be a source of needed cash. Seven life events were identified. The basic approach was to examine persons aged 20 to 59 who experienced an event and then determine the proportion making a withdrawal in either the same or following year. This proportion was then compared with the 'at risk' population. It is not possible to conclude that the RRSP withdrawal was caused by the life event, only that it happened around the same time.

This analysis looked both at whether the life event was more likely to result in an RRSP withdrawal (Table 6) and, if a withdrawal was made, whether it was more likely to be large (\$10,000 or over).

Results suggest that certain life events are linked to the need for additional funds, and for some people funds appear to have come from their RRSPs. It is worth looking briefly at the results for each of the defined events.

**Death of a spouse:** The death of a spouse had the greatest effect on RRSP withdrawals; those who lost a spouse were much more likely to withdraw funds. And, among persons making a withdrawal, those whose spouse had died withdrew large amounts (\$10,000 or more) more frequently than those whose spouse was still alive. The death of a spouse is a unique

### Earnings replaced by OAS/GIS and C/QPP\*

	OAS	GIS	C/QPP	Total income from OAS/GIS and C/QPP	Employment income replaced by OAS/GIS and C/QPP
<b>Earnings of individual prior to retirement</b>					%
\$0	5,176.32	6,151.80	...	11,328.12	...
\$5,000	5,176.32	5,526.80	1,250.00	11,953.12	239
\$10,000	5,176.32	4,901.80	2,500.00	12,578.12	126
\$15,000	5,176.32	4,276.80	3,750.00	13,203.12	88
\$20,000	5,176.32	3,651.80	5,000.00	13,828.12	69
\$25,000	5,176.32	3,026.80	6,250.00	14,453.12	58
\$30,000	5,176.32	2,401.80	7,500.00	15,078.12	50
\$35,000	5,176.32	1,776.80	8,750.00	15,703.12	45
\$40,000	5,176.32	1,501.80	9,300.00	15,978.12	40

\* For unattached individuals at 65 years old, based on rates as of January 1, 2001.

Note: OAS assumes residency requirements met, C/QPP assumes contributions made for maximum required period.

**Table 6: Population at risk with RRSP withdrawals**

Life event	Made RRSP withdrawal		Withdrew \$10,000 +	
	Life event		Life event	
	Yes	No	Yes	No
			%	
Separation or divorce – MIE	11.9	9.9	16.0	19.1
Separation or divorce – spouse of MIE	9.7	8.3	12.0	16.1
Death of spouse – MIE	31.2	10.0	55.2	18.8
Death of spouse – spouse of MIE	28.3	8.3	81.4	15.7
Involuntary job loss – MIE	10.9	9.7	29.9	14.5
Involuntary job loss – spouse of MIE	9.5	9.0	20.7	15.8
Return to school full time – MIE	10.0	9.5	16.4	17.1
Return to school full time – spouse of MIE	10.9	8.3	8.8	16.2
Buying a house – MIE	8.4	7.0	16.3	11.9
Birth of a child – MIE	12.9	9.8	8.1	19.7
Starting a business – MIE	11.5	9.1	27.8	15.6

Source: Survey of Labour and Income Dynamics, 1993-2001

Note: Spouse includes common-law partner.

MIE = major income earner.

event in that it is generally unexpected and may often occur before adequate financial planning has taken place. In such a situation, RRSPs could provide a needed or useful source of funds.

**Separation or divorce:** Although the proportion making RRSP withdrawals was higher for separated or divorced individuals, the difference from those at risk was smaller than for most of the other life events.

**Involuntary job loss, starting a business:** Involuntary job loss did not have an appreciable effect on the likelihood of making an RRSP withdrawal, while starting a business was somewhat of a factor. However, for those withdrawing money, both events were more frequently associated with large withdrawals.

**Birth of a child:** This event had little effect on the proportion of people making an RRSP withdrawal. Interestingly, the proportion of withdrawers taking out large sums was considerably lower than for those without a new baby. Those having children are generally younger, and this age group is much less likely to make large RRSP withdrawals.

**Buying a house:** Although this event had only a slight effect on the likelihood of withdrawing from an RRSP, those who did tended to withdraw larger amounts. Withdrawals under the Home Buyers Plan (HBP) were excluded. The HBP allows people to withdraw up to \$20,000 with no tax penalty to purchase a home, as long as they return the money to their RRSP within a prescribed period. However, the HBP applies only to first-time home buyers. These larger amounts may have been withdrawn by people who did not qualify for the HBP or who required amounts above the prescribed limit.

### Returning to school full time:

For the major income earner, this event had little effect on RRSP withdrawal behaviour, except if a spouse was returning to school. Student loans are the more common method of financing this activity, making it somewhat more difficult to interpret these findings. Withdrawals under the Lifelong Learning Plan were not considered here, although this program would have had little effect on the analysis since it came into effect only in 1999.

### Summary

Although RRSPs are commonly used to accumulate retirement savings, many people take money out before retirement. The practice is not restricted to lower-income groups: Over 40% of those in the middle income deciles known to have RRSPs made withdrawals between 1993 and 2001.

Approximately one-quarter of taxfilers in all age groups made withdrawals.

The likelihood of returning withdrawals to an RRSP is not high. Overall, less than 40% of those who made a withdrawal in 1993 had repaid the money by 2001. The proportion was even lower for the older age groups (22% for those 50 to 59).

From 1993 to 2001, the number of people making withdrawals increased substantially (84%). However, the median withdrawal decreased markedly (-46%), largely because of the much smaller amounts being withdrawn, particularly by those aged 20 to 39.

Close to one-fifth of those 50 to 59 who withdrew funds from their RRSPs took out relatively large amounts (\$10,000 or more). This age group was also less likely to repay these withdrawals.

Several life events were associated with an increase in the likelihood of withdrawing money from an RRSP. People who lost a spouse made a withdrawal more frequently, and a large one, and people who involuntarily lost their job or started a new business more frequently withdrew substantial sums (\$10,000 or more).

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Perspectives

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■ **Notes**

1 Other than through the Home Buyers Plan (HBP) or the Lifelong Learning Plan (LLP). The withdrawals referred to here are those on which tax is payable in the year the withdrawal is made. This would include defaults on repayments to the HBP and LLP.

2 This would exclude those who had an RRSP but did not contribute or withdraw money from it between 1993 and 2001.

3 This is assuming they had the available means and RRSP room. (RRSP room is the maximum RRSP contribution that can be deducted from income for income tax purposes.) For 2001, up to 18% of the previous year's earned income, to a maximum of \$13,500, could be contributed, less an adjustment for those belonging to an registered pension plan. Unused room from previous years can be added to this amount.

4 Median withdrawals are stated in 2001 dollars.

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