

For Immediate Release

NIA Proposes Workplace Tax-Free Pension Plans to Fill the Cracks in Pension Coverage

Low- and Middle-Income Earners Especially Need Better Ways to Save for Retirement

TORONTO, April 9, 2019 – New research from the [National Institute on Ageing \(NIA\)](#) at Ryerson University, *Filling the Cracks in Pension Coverage: Introducing Workplace Tax Free Pension Plans*, by [Dr. Bonnie-Jeanne MacDonald](#), calls for the creation of workplace Tax-Free Pension Plans (TFPPs) to better support financial security in retirement for the people who need it the most.

“Workplace pension plans are a key element to retirement income security due to features like automatic savings, employer contributions, substantial fee reductions via economies of scale, potentially higher risk-adjusted investment returns, and possible pooling of longevity and other risks,” says [Dr. Bonnie-Jeanne MacDonald](#), the NIA’s Director of Financial Security Research. “TFSPAs have been very popular for personal savings, and the same option could be provided to workplace pension plans. It would open the pension plan world to many more Canadians, particularly those at risk of becoming Canada’s more financially vulnerable seniors in the future.”

Canadians without workplace pension plans only have \$3,000 on average in retirement savings, with more than three quarters of workers in the private sector not covered by workplace plans at all. To make matters worse, under the current workplace Registered Pension Plan (RPP) model, lower to middle income Canadians are essentially discouraged from saving for retirement due to potential financial penalties from income tax dynamics as well as income testing for social benefits later in life.

This is because workplace RPPs are built similarly to Registered Retirement Savings Plans (RRSPs) in terms of income tax treatment and senior social benefits calculations. Like RRSPs, RPP contributions are tax-deductible at the point of contribution but payouts in retirement are taxable as income, which negatively affects lower income earners who collect Guaranteed Income Supplement and other government programs that have an income tested clawback.

These create financial disincentives for low to middle income earners to save but it doesn’t have to be that way. The NIA’s paper proposes that adding the option of workplace Tax Free Pension Plans (TFPPs) helps to solve this problem.

“There has been a steep shift from defined benefit to defined contribution pension plans, and too many Canadians remain uncovered by any pension plan at all,” says [Michael Nicin](#), Executive Director of the NIA. “Canada’s modest income earners are the least likely to belong to any plan, despite being the most vulnerable to financial insecurity in older age. TFPPs could be an attractive way to get more Canadians into pension plans.”

TFPPs would operate in a “tax-free” environment like TFSPAs. Similar to a TFSA contribution, TFPP contributions would use after-tax dollars and would not receive a tax deduction. It would grow free of tax, and withdrawals would not be taxed or added to taxable income. This means pension income from TFPPs would not be considered when determining eligibility for federal or provincial income-tested benefits, credits and subsidies. Read full report [here](#).

MEDIA CONTACT:

Arianne Persaud

Manager of Advocacy, Stakeholders and Government Relations

Arianne.persaud@ryerson.ca

647-966-1302

About the National Institute on Ageing

The NIA is a think tank focused on meeting the realities of Canada's ageing population. We are Canada's only think tank dedicated to policy solutions at the intersections of healthcare, financial security, and social well-being in relation to ageing. We do evidence and experience driven research founded on the strongest available evidence and original research. Our team is led by experts and practitioners in the fields of financial security, healthcare delivery, and public policy. With the backing of Ryerson University and our industry partners we work across private and public sectors providing solutions that promote the evolution and sustainability of Canadian systems and programs. Our mission is to make Canada the best place to grow up and grow old.