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Local experts call for RRIF reform

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The Westcoast RRIF Focus Group, including members Brooke Campbell, chairman, Larry Fournier, Gary Sutherland, Bob Heinrich and Don Smith, are lobbying the federal government to make changes to the RRIF system, believing that since the withdrawal rates were established in 1992, life expectancies have increased and investment returns are much lower. PHOTO PAUL MCGRATH

Timing, they say, is everything.

A group of seniors from West Vancouver are making the case that the system around Registered Retirement Investment Fund (RRIF) withdrawals is broken. And given the composition of the group - lawyers, accountants, actuaries and former investment professionals - they have some ideas on how to fix it.

I met recently with three members of the group, Brooke Campbell, Larry Fournier and Gary Sutherland, to learn more about their reform proposals.

By the age of 71, seniors must withdraw annual minimum amounts from RRIFs in increasing increments as they age.

Fournier, a retired chartered accountant, notes that since the withdrawal rates for RRIFs were established in 1992, life expectancies have increased and investment returns are lower. A lot lower.

The assumed growth rate in a RRIF portfolio back then was six per cent. Today, says Fournier, you'd be lucky to get half that. And the average 71-year-old now lives approximately 2.75 years longer than in 1992.

The factors around RRIF withdrawals were supposed to be reviewed every five years. That has never happened.

The group has developed a couple of RRIF performance models using different growth rates that illuminates the problem. Assuming a growth rate of six per cent, the first model shows that retirees who transfer their RRSP savings into an income fund at 71 today will be left with approximately $63,000 in their account at age 85 and approximately $22,000 at age 95.

Now look what happens when we factor in the yields that are available today. Assuming a growth rate of three per cent, that same 71-year-old will see their nest egg reduced by approximately 60 per cent at age 85 and by approximately 90 per cent by age 95.

"In 1992 (the withdrawal rules) probably made some sense... ." says Sutherland, a retired banking executive, "But flexibility has got to be built into this plan longer term because markets change and the investor has to have the opportunity to reflect reality and these (withdrawal rates) don't reflect reality."

The group has proposed setting the RRIF withdrawal rate at 3.7 per cent at age 71 and rising gradually thereafter, taking into consideration a two per cent inflation factor similar to government-indexed pension plans.

That formula mirrors both the rates for the Americans drawing funds from their 401 K plans and the projected return on a portfolio with an annual growth rate of approximately six per cent.

There are reasons why the government should pay attention here.

"I think the biggest one is the cost of medical care," says Sutherland. "If people have spent their entire RRIFs, forced on them by the withdrawal rates, the likelihood of those same individuals coming under government subsidy to look after their medical care becomes a critical factor."

In the United Kingdom legislation is being introduced to eliminate mandatory withdrawal requirements on seniors' savings. Campbell thinks that is unlikely to happen here. He believes their proposal strikes a reasonable balance between having seniors receive a dependable annual source of income and the government getting back their "pound of flesh," or revenue that has been previously deferred through tax vehicles such as RRSPs.

More than one study suggests the government doesn't lose any money by letting seniors keep the funds in their RRIF a little longer. In fact, says Campbell, "If there is more income going to the retiree it's going to mean more tax revenue for the government."

Their local MP, John Weston, is onside and they're seeking a meeting with the House Finance Committee when they make an appearance on the North Shore next month.

Their timing is impeccable. With an election looming and a budget surplus, the government will be targeting initiatives that will generate the most support and do the most good.

The members of the group are continuing to refine their proposal.

The goal, ultimately, is to have the proposal land on the desk of the country's Minister of Finance Joe Oliver.

"We are not saying this is cast in stone," says Fournier. "We are saying this is common sense. Have a look at it. Can you do better?" Good question. Over to you minister.

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