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TAX MATTERS

The government's COVID-19 response isn't doing enough to help seniors

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My grandmother was a remarkable woman. She had a great sense of humour. When I asked her what it was like getting older, she would tell me that "age is of no importance, unless you're a piece of cheese." I would talk to her often. In fact, I used to have Grandma on speed dial, which today I guess you would call "Instagram."

In the year 2000, Grandma had to start taking money from her registered retirement income fund (RRIF). Most people convert their registered retirement savings plans (RRSPs) to RRIFs, and they do this before the end of the year in which they reach the age of 71 (you can't have an RRSP beyond that year). Withdrawals from your RRIF need to start the following year – the year you reach the age of 72.

THE CHALLENGE

My Grandma faced a challenge when she started making withdrawals from her RRIF: The equity markets faced meaningful declines at the time. The S&P/TSX was down 13.9 per cent and 14 per cent in 2001 and 2002 respectively, and the S&P 500 was down 10.1 per cent, 13 per cent, and 23.4 per cent over the years 2000 through 2002, respectively. Grandma also lived through the market decline of 2008, which also affected her financially.

The problem for Grandma? Making withdrawals from a portfolio at the same time the investments are declining in value is a recipe for running out of money before running out of retirement. This is known as "sequence of returns risk." Over a number of years, you might achieve a certain average annual return, but if there's a string of negative years in the mix (even one or two bad years), your money may last for a much shorter time than you expect.

Consider my grandmother's portfolio. She started with $500,000 on Jan. 1,

2000. She had a portfolio that was 60 per cent fixed income, and 40 per cent equities. She wasn't expecting to shoot the lights out in terms of returns. She had assumed she would earn 4.5 per cent annually. If this had actually taken place, her RRIF at the end of three years (by the end of 2003), would have been worth $477,980 after her minimum required RRIF withdrawals.

In actual fact, she didn't earn 4.5 per cent in the first three years of having her RRIF. Markets were down while she was also making those minimum withdrawals, and her portfolio actually amounted to $399,910 by the end of 2003. Needless to say, her lifestyle changed significantly.

THE HELP

Seniors who have RRIFs today have good reason to be concerned with declining markets. Like my grandmother, they are being forced to make withdrawals at a time when markets are volatile, and we could see losses for an extended period. The federal government stepped up to help seniors last week by announcing that the minimum RRIF withdrawal requirement for 2020 is now reduced by 25 per cent.

The problem? This simply isn't good enough. This change will allow seniors to avoid the full withdrawal they'd otherwise have to make, but it still requires seniors to withdraw more than they should – if they have the ability to leave the RRIF untouched for some time.

Here's what I propose: The government should eliminate the requirement for seniors to make withdrawals from their RRIFs in 2020. Then, as we near the end of this year, reduce the minimum required withdrawal for 2021 by 50 per cent if markets continue to decline.

What difference would this make? For seniors who could take advantage of leaving those RRIF assets untouched, it can make a big difference. Let's consider my grandmother's portfolio again for a minute. Her $500,000 RRIF turned into $399,910 by the end of the third year because she withdrew the minimum required amount from her RRIF while markets were falling. If the government had done what I'm suggesting and allowed zero withdrawals in the year 2000, and 50 per cent of the normal required withdrawal in 2001, her RRIF would have been worth $431,860 – an 8-per-cent improvement – at the end of 2003.

Now, what we do know is that the next 20 years won't look precisely like the past 20 years in terms of investment returns. But the principle that market downturns lead to problems for the financial security of seniors will never change. And the government can help by going further to help seniors than a measly 25-per-cent reduction to the minimum withdrawal this year. Most of the financial support announced to-date in response to the COVID-19 pandemic has been for workers and businesses – which is important – but let's not forget about seniors who are significantly affected by the current market volatility.

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