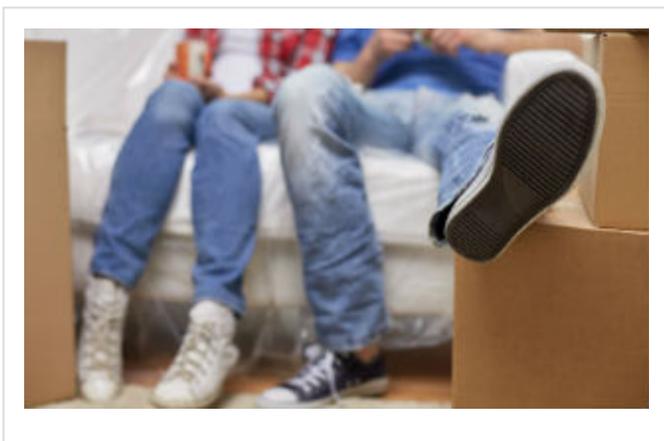




Should Canadians be able to dip into RRSPs to help kids buy real estate?

Martha Porado | December 20, 2017



Should Canadians be able to dip into their registered retirement savings plans to help their children buy their first house?

The Canadian Real Estate Association certainly thinks so. It recently made a submission to the House of Commons standing committee on finance recommending the idea for the 2018 federal budget, as an extension of the federal government's homebuyer's plan.

Specifically, the association is recommending extending the plan to encompass "Canadians who relocate to secure employment, accommodate an elderly family member in

their home, become widowed, suffer a marital breakdown, or wish to assist their children with the purchase of a home."

Read: [Housing costs, not avocado toast, to blame for millennials' retirement struggles](#)

Employers that provide group registered retirement savings plans may have mixed reactions to the proposal, says Michael Scott, a consultant at Toronto-based Proteus Performance Management. "When employers set up group RRSPs, if the purpose is to help members save for retirement, then the more ways there are to withdraw, it could be a detriment to that objective," he says.

Scott says he has seen a range of employers "who want to heavily restrict the ability to make withdrawals and then others that don't put any restrictions on at all. And so I think those that are more flexible would probably be less against this proposal."

Joe Nunes, president of Actuarial Solutions Inc. notes the capital accumulation plan guidelines say a plan has to have a purpose. "Remind employers that your plan needs to have a purpose, and is making a home ownership loan to your children the best possible financial choice to build your retirement nest egg?"

There will certainly be some parents with children who are able to repay a loan promptly, says Nunes, but for the majority, the affordability issues in the market makes that more unlikely. "If your purpose is to help your employees save for retirement, giving them avenues to divert that savings is diverting away from your main purpose," he adds.

Read: [2017 CAP Suppliers Report: Employers tailoring CAPs for a more holistic financial picture](#)

The Canadian Real Estate Association's recommendations also include raising the maximum amount eligible for tax-free withdrawal to \$35,000 from \$25,000. Joseph Chan, vice-president of benefits and total rewards at Stem Capital Inc., doesn't think it's an especially alarming number but he notes it's important to consider the demographics of those who would be letting go of that cash, even for a temporary period.

"You're borrowing money from the parent's RRSP, then you'd probably be looking at a demographic that would range in the 50s and the 60s. So at that point in time, it is already getting very close to retirement age."

Finding new ways for older Canadians to unlock their accumulated capital could be problematic, especially in Toronto and Vancouver where the problem of expensive real estate is the real issue, says Karen Hall, vice-president of financial education and employer services at T.E. Wealth. "When we look at it, it's not necessarily a fair proposition," she says.

"Every survey tells us . . . people are postponing their retirements because of these issues of helping out their children, and removing assets out of their RRSPs won't really help on that side," she adds. "There's a real risk they're going to compromise their own retirement and they might even feel an obligation to do so if this is widely being promoted and becomes acceptable."

Wanda Morris, vice-president of advocacy at CARP, agrees that older Canadians, in general, aren't likely in a financial position to let go of those funds, even on a temporary basis. "The new generation of seniors and near seniors are carrying unprecedented levels of debt into retirement," she notes.

Read: [Report recommends raising trigger age for withdrawal of registered retirement savings](#)

Among Canadians aged 60 or over, almost 50 per cent have a loan or a line of credit with a bank and about the same number have less than \$25,000 in savings, says Morris. "So unless they have a really beautiful company pension plan, that's not a recipe for retirement success."

Morris notes there are already exceptions available for certain extenuating circumstances. "There is already a provision for people to borrow from their RRSP to help with home ownership with a disabled relative, so I think that's an important distinction and that's fair."

It's also important to remember the rules don't necessarily lock in money saved in an RRSP, she says, since it simply becomes taxable upon withdrawal. In terms of replacing those funds, however, many older Canadians, especially if they've already retired, won't be in an ideal position to get their savings back on track, she adds.

"If we're talking about seniors and saying, 'Let's extend that program and allow people to take essentially a loan out of their RRSP to grant it to their children or grandchildren,' most people's incomes don't increase with age, so chances are they're not going to be more able to repay a loan back later."

For parents who have yet to retire, Chan notes, being able to take a loan from their RRSPs without worrying about taxes would have some benefit as they're more likely to be at their earnings peak and therefore in their highest tax bracket.

Read: [Two-thirds of Canadian households saving for retirement, census suggests](#)