



# Behind the Headlines:

## Who's Really Benefiting From Higher TFSA Limits?



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## EXECUTIVE SUMMARY

Fulfillment of the Conservative government's 2011 electoral promise to double the annual limit on contributions to Tax-Free Savings Accounts to \$10,000 has raised many questions about who will gain and who will not. In defence of its TFSA limit hike, the government has cited figures showing that nearly 60 per cent of TFSA holders who maximized their cumulative limits in 2013 had individual incomes below \$60,000. This view has been mirrored in media and expert claims that the gains from the increased limits will be widely dispersed.

This study carefully examines the available data on TFSAs to gain deeper insights into the true distributional impacts of the 2015 hike to contribution limits. It assesses past patterns of TFSA participation and maximization — not only for persons holding TFSAs, but for the entire population eligible to have TFSAs. The untold story is that fewer than two out of every five eligible Canadians had availed themselves of TFSAs by 2013. In contrast, 62 per cent of eligible persons had not even opened a TFSA. By 2013, only one out of 15 eligible persons — or 6.7 per cent — had maxed out the TFSA limits, and by the start of 2015 it would have been an even smaller proportion.

**The sharp decline in the number of people maxing out the TFSA limits across age and income groups provides evidence that the TFSA hike will encourage relatively little new savings and mainly evoke asset shifting and income splitting by wealthier Canadians holding the most taxable assets.**

This broader purview of past TFSA behaviour patterns provides a sharply different understanding of the real effects of raising the TFSA limits. This study finds that the benefits will in fact be concentrated among higher-income and older individuals. Even the large relative gains for seniors are found to be a transitory effect that will decline in future years, as seniors appear to be mainly shifting taxable assets into TFSAs to cut their income taxes and raise their public pension benefits rather than increasing their savings. The sharp decline in the number of people maxing out the TFSA limits across age and income groups provides evidence that the TFSA hike will encourage relatively little new savings and mainly evoke asset shifting and income splitting by wealthier Canadians holding the most taxable assets.

## Key Findings

The distinction between TFSA “holders” and TFSA “eligibles” is essential to assessing the performance of the TFSA program, and this distinction has been ignored in much official government and media commentary. Most statistics reported for the TFSA program have focused on TFSA holders, neglecting the larger 62 per cent of Canadians who are eligible to open a TFSA but haven’t done so. In fact, this study finds that by 2013 — the most recent year for which data are available — fewer than two out of every five Canadians eligible to have a TFSA had chosen to do so.

An acute example of the importance of distinguishing between TFSA holders and eligibles arises with the government’s claim that nearly 60 per cent of all holders maxing out their TFSA limits in 2013 had incomes below \$60,000. While that statement is correct, it ignores two important facts:

- Significantly more than 60 per cent of Canadians had incomes below \$60,000; and
- Among TFSA eligibles with incomes below \$60,000, only five per cent maxed out their TFSA limits in 2013. In contrast, for TFSA eligibles with incomes above \$250,000, the maximization rate was 31 per cent.

Second, the Canada Revenue Agency data on TFSAs is deficient for policy purposes in that it reports activities only on the basis of the individual account holder. Statistics of this kind can be misleading in that many individuals with low or moderate incomes are members of families with much higher total incomes. Because intra-family transfers of money for the purpose of contributing to TFSAs are permitted and do not attract tax, TFSAs are used for income splitting among spouses and other members in families with the financial means. This study uses another survey to compare the distribution of TFSA assets based on individual and family incomes and finds major discrepancies. The CRA data is found to overstate the extent to which those at lower incomes are participating in and benefiting from TFSAs. For example:

- In 2012, individuals with incomes below \$20,000 held 17 per cent of all TFSA assets, but families with those incomes held less than four per cent.
- At the other end of the income scale, the TFSA holdings of those making \$150,000 and more are 6.5 per cent of the total for individuals but nearly four times that share (24.0 per cent) at the family level.

Third, the \$5,500 TFSA contribution limit that was in place prior to the recent hike was more than adequate to meet the needs of the great majority of eligible Canadians. As of 2013, the proportion of individuals that were maximizing their cumulative limits was small, and it had been declining quickly over the years. Key findings on the patterns of TFSA use include the following:

- Of all TFSA holders, only about one out of six had maxed out their limits in 2013 — a drop from 64 per cent in the program's first year.
- Of all TFSA eligibles, only about one out of 15 persons had maxed out their limits in 2013.
- Maximization rates were much higher at the top than the bottom end of the income spectrum. In 2013, the rate for holders with incomes above \$250,000 was about four times the rate for holders with incomes below \$20,000, and the rate for eligibles with incomes above \$250,000 was 10 times the rate for eligibles with incomes below \$20,000.
- Maximization rates rose sharply with the age of individuals. In 2013, the maximization rates for holders aged 65-plus were nearly six times those for holders aged 18 to 29, and the maximization rates for eligibles aged 65-plus were 10 times those for eligibles aged 18 to 29 — 15.9 per cent versus only 1.6 per cent.
- The TFSA maximization rates fell rapidly for both holders and eligibles between 2009 and 2013, but the relative declines were smallest for the age group of 65-plus.
- The maximization rates for both TFSA holders and eligibles declined significantly between 2009 and 2013 for almost all income groups, as well. For the holders in all income groups below \$100,000, the maximization rates fell by two-thirds or more.

The estimated \$592 billion in unused TFSA contribution room already accumulated by 2013 suggests the previous limit more than sufficed. Since only individuals who were maximizing their TFSA contributions with the \$5,500 limit stand to benefit from any increase in the limit, the study's policy implications are straightforward. The 2015 hike in TFSA limits will disproportionately benefit higher income and wealth groups, as well as older workers and seniors — and this tilt favouring high income and wealth groups will become more extreme over future years. However, the added gains for older persons will dwindle

in the future, as current younger cohorts will approach old age having had many years to contribute to their TFSAs and large cumulative limits. This point suggests that any pressure from seniors for higher TFSA limits should have been met, at most, by an additional allowance strictly for the current cohort of older persons and not by increased limits for all generations. The study's findings further suggest consideration of placing a limit on an individual's lifetime TFSA contributions and/or a limit on how large their tax-free balances can become.

## INTRODUCTION

“It is the mark of a truly intelligent person to be moved by statistics,” counselled George Bernard Shaw. But what is the average citizen to make of the varied statistics bandied about the federal government’s 2015 hike to Tax-Free Savings Account limits? In defence of its hike, the Conservative government states that nearly 60 per cent of TFSA holders making maximum use of their contribution limits had individual incomes below \$60,000 in 2013.<sup>1</sup> Critics of the TFSA hike assert that these statistics are misleading and that an increased limit will be of disproportionate benefit to the wealthy.<sup>2</sup> Even the Parliamentary Budget Officer (2015) has assessed the TFSA statistics from a critical perspective. This study attempts to shed light on the issue by dissecting the data to reveal past behaviour patterns on maximum use of the TFSA limits: by whom and for what purpose. The findings provide insight into whether the prior limit of \$5,500 would have served the needs of most Canadians, what groups will be the primary beneficiaries of the new \$10,000 limit, and whether TFSA are generating new savings or mainly being used for asset shifting and income splitting.

The study focuses on past patterns and attributes of individuals maximizing their cumulative TFSA limits, since this is the best indicator of the adequacy of the limits before their recent hike. The TFSA annual limit was \$5,000 for 2009 through 2012, and was then raised to \$5,500 via an indexation formula. Individuals can accumulate any unutilized limits, such that someone who has been eligible for a TFSA since 2009 but has never had a TFSA would enter 2015 with a cumulative limit of \$36,500 even before the hike. If a TFSA holder withdraws funds from their account, that amount can be re-contributed in the following year and thus increase the person’s cumulative limit. My analysis begins with the aggregate patterns of TFSA participation and maximization over the provision’s first five years for which data are available.<sup>3</sup> I then examine the trends in patterns of TFSA maximizers disaggregated by age and by income. This “unpacking” of TFSA maximizers through simple tables and charts provides considerable insight into which groups stand to benefit most from the higher limits.

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1 This claim is confirmed in a table showing that 59.4 per cent of TFSA holders who maximized their limits in 2013 had incomes below \$60,000. The table was included in a memo to the Conservative caucus from Finance Minister Joe Oliver (2015). It presents cross-tabulations by age and income of account maximizers not available in publicly released data.

2 For example, see Hsu (2015), Goodale (2015), and Macdonald (2015).

3 The Canada Revenue Agency released TFSA data disaggregated by income of account holders only on May 7, 2015, following the author’s Access to Information and Privacy request submitted January 22, 2015. Previously, the TFSA data by income were available only for government’s internal use (e.g., Canada Department of Finance 2013; Oliver 2015). See also PressProgress (2015).

Most discussion of the adequacy of TFSA contribution limits has focused on the patterns among Canadians who hold such accounts. The TFSA has often been described as a provision that can benefit “all Canadians” regardless of age, income, or situation. In the words of the Toronto Star personal finance editor, “Part of the TFSA appeal is that they benefit all income groups” (Mayers 2015). The untold story relates to the patterns among all persons eligible to have TFSAs, including those who have chosen not to open a TFSA. My discussion thus refers to TFSA “eligibles,” including both the “holders” who have a TFSA and the “non-holders” who do not. The only requirement for eligibility to open a TFSA is that the individual be a Canadian resident aged 18 years or more. Funds for TFSA contributions can come from the contributor’s own savings or be transferred from the account of a spouse, parent, or other person, yielding attractive income-splitting and asset-shifting opportunities for those with the financial resources.

## TFSA PARTICIPATION RATES

Most TFSA-eligible Canadians have opted not to open an account; these non-holders actually outnumbered TFSA holders by more than three-to-two in 2013. The first row of Table 1 shows the participation rates over the first five years of the TFSA’s operation. While the proportion of eligibles with TFSAs has grown from 18.1 per cent in 2009 to 38.0 per cent in 2013, it is rising ever more slowly and likely will stop below 50 per cent. Many Canadians will never choose to open a TFSA for various reasons: lacking the need, means, or ability to save; belonging to an adequate workplace pension plan; or meeting all of their savings needs through Quebec and Canada Pension Plan contributions, investing in their home or family business, and/or making RRSP contributions.<sup>4</sup> These 17 million eligible persons without a TFSA are an essential part of any understanding of who does and who does not benefit from the scheme or a hike in its limits.

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<sup>4</sup> For most middle- and higher-earning workers, contributing to an RRSP is financially more attractive than a TFSA because of the upfront tax deduction on the former. It is mainly those constrained by the 18 per cent of earned income limit or the 2015 dollar limit of nearly \$25,000 on RRSP contributions who might additionally find TFSA contributions attractive. Others might hold TFSAs for short-term savings purposes.

**TABLE 1: AGGREGATE RATES OF TFSA PARTICIPATION AND MAXIMIZATION, 2009-2013**

	2009	2010	2011	2012	2013
Participation Rate	18.1 %	25.4 %	30.5 %	34.5 %	38.0 %
Maximization rate among all					
Holders	64.0 %	39.6 %	30.2 %	23.5 %	17.7 %
Eligibles	11.6 %	10.0 %	9.2 %	8.1 %	6.7 %
Numbers maxing out their TFSA limits	3,099,830	2,716,940	2,522,750	2,254,030	1,897,220

**Note:** Computations by author. Eligibles in a given year are the total Canadian population aged 18 years and older.

**Sources:** Canada Revenue Agency (misc.); Statistics Canada, Cansim Table 051-0001 for population estimates by year and age group.

Another pertinent fact in understanding TFSA participation is that many of the accounts have very small balances, making the official count of TFSA holders somewhat deceptive. This situation can be attributed in part to the common use of TFSAs for short-term savings, with many account holders making frequent withdrawals. In 2013, for example, 2.9 million TFSA holders (28 per cent of the total) made a total of 12 million withdrawals from their accounts, and the total withdrawals for each averaged \$4,940. The aggregate amount of withdrawals that year was \$14.6 billion, or 36 per cent of the year's total TFSA contributions. Clearly, many Canadians are using their TFSAs as a short-term savings vehicle rather than for their retirement savings; they will never be constrained by the contribution limits. CRA data do not provide any direct handle on the distribution of account sizes. However, analysis of Statistics Canada's 2012 dataset from the Survey of Financial Security reveals that nearly 900,000 families had TFSAs with total balances below \$1,000 each, and the average of those holdings was just \$215.<sup>5</sup> Thus, the rising figures on TFSA participation rates overstate the extent to which TFSAs are substantively held.

The rates of TFSA participation display distinct positive relationships with both the age and income of individuals. In 2013, the rates were 29.5 per cent for persons aged 18 to 29 years, 33.9 per cent for ages 30 to 49, 40.9 per cent for ages 50 to 64, and topped out at 50.2 per cent for ages 65 and higher.

<sup>5</sup> Tabulations of the SFS for this purpose and for the later Table 2 were undertaken by Richard Shillington of Tristat Resources ([www.shillington.ca](http://www.shillington.ca)).

For all ages between 18 and 59 years, the rate was just above one-third (34.0 per cent). Similarly, the participation rates rise substantially with individuals' incomes. In 2013, the approximate TFSA participation rates were 26 per cent for incomes between \$10,000 and \$20,000; 45 per cent for incomes from \$45,000 to \$55,000; 65 per cent for incomes from \$150,000 to \$250,000; and 71 per cent for incomes above \$250,000.<sup>6</sup> These patterns reflect individuals' varying ability to undertake new savings, holdings of taxable financial assets for shifting to TFSAs, and incentives to use TFSAs for income splitting — all factors correlated with age and income.

## AGGREGATE PATTERNS OF TFSA MAXIMIZATION

The second row of Table 1 shows the percentages of all TFSA holders maxing out their cumulative contribution limits in each year. The rate of TFSA maximization has declined sharply from 64.0 per cent in 2009 to just 17.7 per cent in 2013. This steep decline could be explained by two alternative hypotheses. First, as TFSA holders enjoy a cumulatively growing limit each year, many exhaust their taxable assets to shift into their TFSAs over time — that is, their TFSA contributions are mainly shifting of taxable assets into accounts rather than new savings. If an individual's TFSA contribution came mainly out of savings from their current income, it is improbable that their savings would decline sharply from one year to the next. In the aggregate, it would similarly be unlikely that overall TFSA maximization rates among holders would be declining over the years if contributions were mainly originating from new savings.

An alternative hypothesis is that the declining maximization rates among TFSA holders are a result of the fact that individuals who open their accounts in successive years possess fewer taxable assets to shift, or have less ability to save than earlier account holders. The last row of Table 1 reports the actual numbers of TFSA holders who maximized their limits each year falling sharply over this period — by nearly 40 per cent between 2009 and 2013. Despite the more than doubling of TFSA holders over this period, the actual number of persons able to maximize the TFSA limit was in a virtual free fall. This evidence strongly supports the first hypothesis of asset shifting, which finds further validation in the later sections' results disaggregated by age and income.

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<sup>6</sup> The participation and maximization rates relating to income for eligibles in 2013 cited here and throughout the study have been calculated using the Canada Revenue Agency preliminary data for 2012, with numbers filing returns in each income group scaled up to reflect the data's 95 per cent sample size and increased by the average annual rate of growth in all returns filed between 2009 and 2011 (1.1 per cent).

The third row of Table 1 shows the pattern of TFSA maximization rates computed for all eligible persons, including those who do not have a TFSA. These figures are weighted averages of maximization rates for holders and non-holders with zeros for the latter group.<sup>7</sup> Clearly, maximization rates for all TFSA eligibles are much lower than for TFSA holders alone, falling from 11.6 per cent in 2009 to just 6.7 per cent in 2013. That is, barely one out of 15 Canadians eligible to have a TFSA utilized the maximum available contribution limit in 2013, and the rate is undoubtedly lower by 2015. Note that the rising proportion of holders partly offsets the decline in maximization rates among the holders. Nevertheless, despite the continuing rise in eligibles starting TFSA's over time, few of these later starters will ever max out their cumulative TFSA limit, which, for those who have been eligible since 2009, was \$36,500 at the start of 2015 — before the subsequent hike to \$41,000 — and continues to grow over time.

## TFSA MAXIMIZATION PATTERNS BY AGE

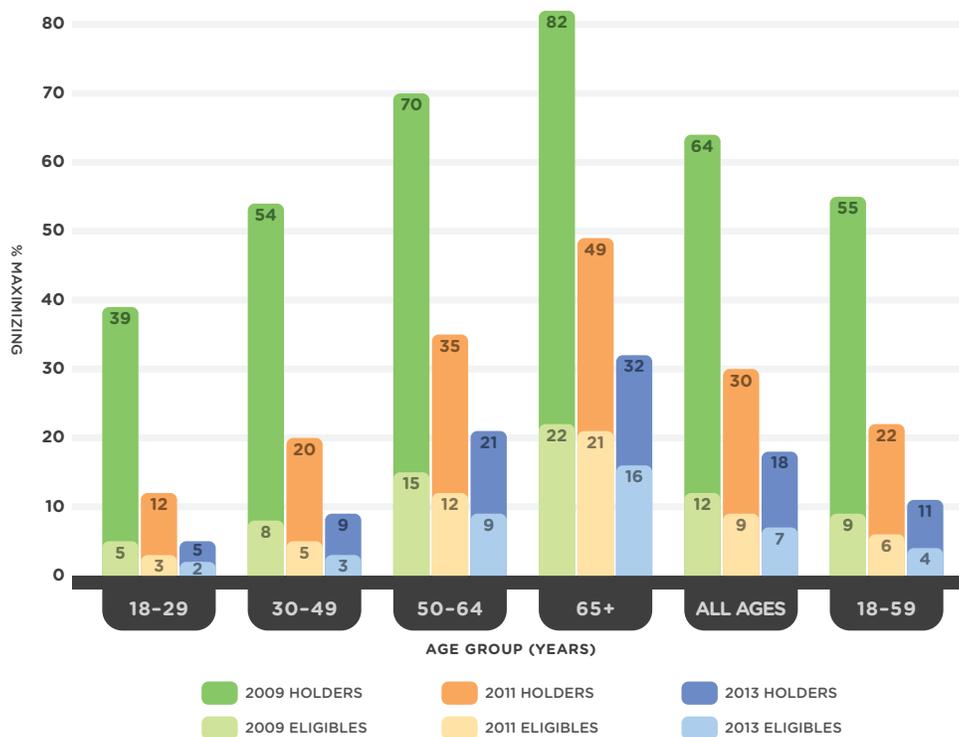
I next examine the data on rates of TFSA maximization disaggregated by age of the account holder. Chart 1's full columns show the results for 2009, 2011, and 2013 for TFSA holders in the following age groups: 18 to 29, 30 to 49, 50 to 64, and 65-plus, as well as the group aged 18 to 59. In the TFSA's first year, 2009, the rates of those opening an account who maximized the \$5,000 limit were relatively high across all ages, albeit displaying a significant upward tilt with higher ages. For the group aged 18 to 29, the maximization rate was 39 per cent, or nearly half the 82 per cent rate of the oldest group (aged 65 and up). By the TFSA program's fifth year, 2013, when it would take cumulative contributions of \$25,500 for an individual to max out the TFSA limit, the maximization rates for all age groups of holders had fallen substantially. However, in relative terms, the maximization rates fell most sharply for the youngest age groups: By 2013, the maximization rate for holders aged 18 to 29 (5.4 per cent) was only about one-sixth the rate for those aged 65-plus (32 per cent). While the number of TFSA holders in the 18 to 29 age group rose from 646,580 to 1,708,460, the number maxing out their limits fell from 254,320 to 91,830. Even for the larger group of holders aged 18 to 59, the maximization rate fell from 55 per cent to just 11 per cent over this period.

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<sup>7</sup> Mathematically inclined readers will understand that the maximization rates for eligibles in Table 1 are the product of the maximization rates for holders and the participation rate. For example, for 2009, 11.6 per cent = 64.0 per cent x 18.1 per cent.

The results in Chart 1 display vividly the much lower and faster-declining maximization rates for all TFSA holders who are not at or near retirement ages compared with those at normal retirement ages. The decline is particularly steep for the youngest group of TFSA holders (aged 18 to 29). This pattern reinforces the hypothesis that TFSA contributions are heavily sourced from asset shifting rather than new savings. Older cohorts have accumulated far more taxable financial assets that can be shifted into TFSAs purely for tax avoidance. As each individual's cumulative TFSA limit rises each year, the younger groups with their smaller asset holdings will run out of assets for transfer to their TFSAs more quickly than the older groups with their larger asset holdings, so that their maximization rates fall more sharply.

**CHART 1: TFSA MAXIMIZATION RATES BY AGE OF TFSA HOLDERS AND ELIGIBLES, 2009, 2011, AND 2013**



Note and sources: Computations by author; figures are rounded to the nearest whole number. Canada Revenue Agency (misc.); population estimates by age and year are taken from Statistics Canada, Cansim Table 051-0001.

The lower (lighter) columns in Chart 1 show the analogous maximization rates computed for all TFSA eligibles rather than just TFSA holders. All the rates are much lower than their counterparts for holders, because the non-holders now included have, by definition, zero rates of maximization. However, in relative terms, the

maximization rates for each age group fell less sharply than among holders alone, because the rates are computed relative to much more stable population figures rather than growing numbers of holders. Nevertheless, the absolute rates of maxing out TFSAs among all persons eligible to have an account had fallen to very low levels by the provision's fifth year. For those aged 18 to 29, the 1.6 per cent rate meant that just one out of 60 had maxed out their TFSA contributions; for those aged 18 to 59, the 3.8 per cent rate corresponds to just one out of 25; and even for those aged 65 and up, the 15.9 per cent rate corresponds to less than one out of six. Nevertheless, the maximization rates held up relatively more strongly for the eligibles aged 65-plus than for the other age groups. A comparison of the full and the lower columns in Chart 1 depicts graphically the large divergence between TFSA maximization rates by age when computed for eligible persons versus those holding accounts.

## TFSA MAXIMIZATION PATTERNS BY INCOME

Until recently, an independent analysis of TFSA maximization disaggregated by the incomes of account holders and all eligibles was not feasible, as the Canada Revenue Agency released the TFSA data by income only in early May 2015, following the author's Access to Information and Privacy request submitted in January 2015.<sup>8</sup> The upper three (solid) curves in Chart 2 display the patterns of maximization for TFSA holders for the years 2009, 2011, and 2013 relative to the total income assessed of account holders.<sup>9</sup> In a pattern somewhat like that with respect to age, the maximization rates in 2009 all begin relatively high (above 50 per cent) and rise with income of the account holder. The rates for that year peak at nearly 80 per cent for the group with incomes over \$250,000. Surprisingly high maximization rates in 2009 even at incomes below \$20,000 might be explained in part by the transfer of funds from higher- to lower-income family members.<sup>10</sup>

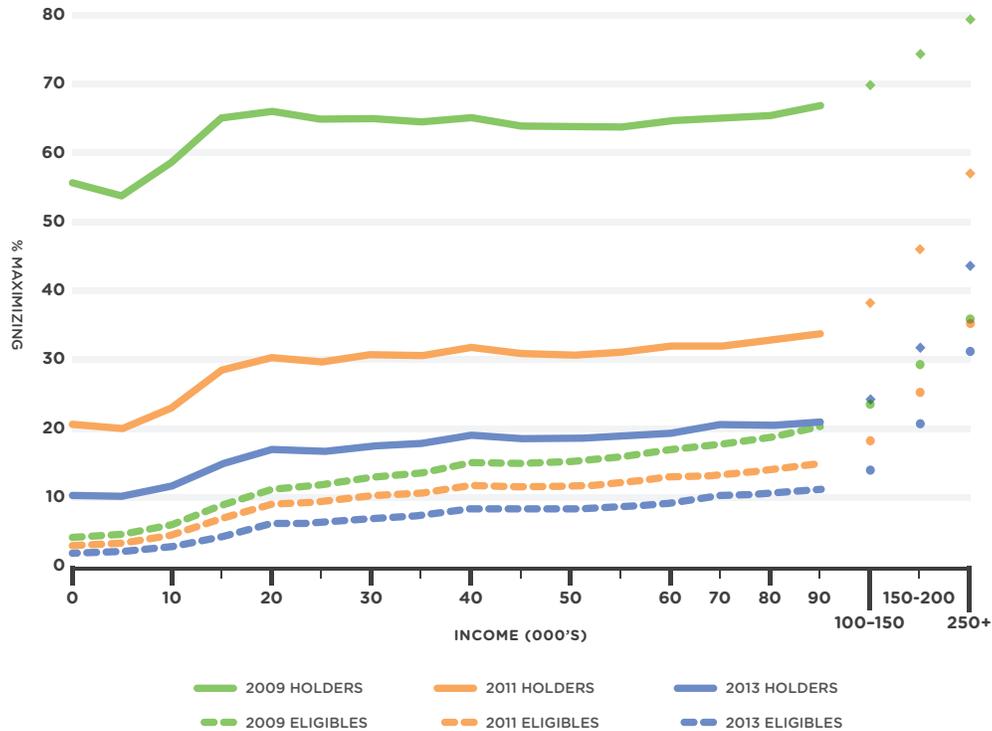
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8 See Note 3. Clearly, the Department of Finance Canada had access to such data as early as 2013, given its analysis of the TFSA program contained in its annual tax expenditures report.

9 For the exact percentage figures in Chart 2 by narrow income group (for both holders and eligibles), see Kesselman (2015c, Tables 4 and 5).

10 Apart from the fact that most individuals with incomes below \$20,000 would not have much savings or taxable assets to contribute to a TFSA, they mostly would be non-taxable or bear little tax even on taxable assets. Yet another explanation relates to seniors seeking to maximize their Guaranteed Income Supplement benefits; I return to this issue in a later section.

**CHART 2: TFSA MAXIMIZATION RATES BY INCOME OF TFSA HOLDERS AND ELIGIBLES, 2009, 2011, AND 2013**



Note and sources: Computations by author; also see Notes 6 and 11. Canada Revenue Agency (misc.); figures for population by income group are taken from the number of all returns filed (Canada Revenue Agency 2011; 2013; 2014).

Despite their high initial values, for almost all income groups the TFSA maximization rates of holders decline sharply over the period from 2009 to 2013. They fall most sharply for the lower-income groups such as those between \$20,000 and \$25,000, which experienced a decline from 66 per cent to 17 per cent. For all income groups under \$100,000, the maximization rates fell by two-thirds or more. Only for the group with incomes exceeding \$250,000 (shown by diamonds) did the rates fall by less than half – from 79 per cent in 2009 to a still robust 44 per cent in 2013. Thus, the highest-income TFSA holders are the ones with the most to gain from lifting the contribution limit. Once again, the behavioural patterns are supportive of the hypothesis that TFSA contributions come largely from shifting of taxable assets rather than new savings.

The lower three (dashed) curves in Chart 2 display the patterns of TFSA maximization for the entire eligible population, and not just those who held an account in any given year.<sup>11</sup> As with the TFSA maximization rates by age, the maximization rates for any given income level are substantially lower for eligibles than holders. For example, in 2009, the maximization rates at incomes of \$25,000 to \$30,000 are just 12 per cent for all eligibles versus 65 per cent for holders. The positive relationship between higher incomes and higher maximization rates is notable for eligibles in all years. The maximization rates for eligibles fall over time, but they fall the least for eligibles at the highest incomes. The maximization rate for eligibles with incomes above \$250,000 (shown by dots) barely budges at about 35 per cent between 2009 and 2011, and then slips to just 31 per cent in 2013. This pattern is again illustrative of individuals with the largest initial stocks of taxable assets having the ability to continue making the maximum TFSA contributions over successive years. Chart 2 portrays the sharply lower TFSA maximization rates at any given income for eligible persons versus account holders.

The large divergence between this result and the government's version is explained by the fact that the overall maximization rate was only 6.7 per cent for all eligible persons in 2013, and the government focused on those with TFSAs rather than the entire eligible population.

Recall the government's much-publicized statement that in 2013, "59.4 per cent of TFSA max contributors make less than \$60,000... people of all ages and income levels max out their TFSA contribution limits — in fact the vast majority are low to middle income earners."<sup>12</sup> A contrasting approach is to compute the maximization rate in 2013 for all eligibles with incomes below \$60,000 (not shown in the charts or tables). The result is that only about five per cent of that income group maxed out their TFSA limits in 2013. The large divergence between this result and the government's version is explained by the fact that the overall maximization rate was only 6.7 per cent for all eligible persons in 2013, and the government focused on those with TFSAs rather than the entire eligible population. Also note that individuals with assessed incomes below

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<sup>11</sup> Caution is in order with respect to the rates shown in Chart 2 for eligibles with incomes under \$10,000. They are likely underestimates on account of using CRA data on the distribution of incomes assessed for all returns without an ability to omit filers under 18 years of age, who are not TFSA eligible. The CRA public data do not provide a cross-tabulation of filers by age and income. Still, it was felt best to use consistent data from the CRA on the distribution of incomes assessed for all returns rather than to resort to an alternative survey using a different income measure and limited sample size. Any bias in the results reported for incomes above \$10,000 should be minimal, as few people under 18 years of age earn above that level.

<sup>12</sup> See Oliver (2015, p. 1).

\$60,000 accounted for an estimated 78 per cent of all tax filers in 2013, so one would expect this group to contain a high proportion of the relatively small total number of TFSA maximizers.

## INTRA-FAMILY ASSET SHIFTING VIA TFSAs

The CRA's statistics report surprisingly high proportions of all TFSA holders with very low levels of assessed income. For example, 21 per cent of all holders in 2013 had incomes below \$20,000 in that year. Some portion might be the result of individuals who had higher incomes in preceding years but suffered an income decline in 2013. Otherwise, individuals with incomes normally below \$20,000 would be non-taxable or bear little income tax, which raises the question of why they would value the tax-free advantage of TFSAs. Moreover, the average fair market value for account holders with incomes below \$20,000 was \$8,462 — not radically below the average \$11,037 for all account holders in 2013. Thus, the high take-up and significant balances by many individuals with very low incomes would seem to present a puzzle. One possible explanation is that assets are shifted within higher-income families to lower-income members (spouses, children aged 18-plus living at home, and other relatives) so as to exploit larger total TFSA contribution limits.<sup>13</sup>

**These results show clearly that many TFSA holders recorded with low individual incomes are members of families with significantly higher total incomes; this is a shortcoming of all the CRA's TFSA statistics.**

To cast some light on this phenomenon, I draw on a Statistics Canada survey that reports TFSA asset holdings on a family basis and compare that with the CRA data on TFSA assets on an individual basis.<sup>14</sup> Table 2 presents the results using 2012 data from both sources, and it yields a radically different picture. Whereas for incomes below \$20,000 the individual data show 16.9 per cent of all TFSA assets held, the family data show less than one-quarter of that share (3.9 per cent). For individual TFSA holders with incomes below \$60,000, the share is 63.4 per cent, but on a family basis for that income range the share is less than half that figure (31.2 per cent). At the

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<sup>13</sup> Normally when one spouse gives the other spouse money to invest, the investment returns on those funds are attributed to the donor spouse for tax purposes. This attribution is waived for inter-spousal transfers for the purpose of TFSA contributions, thus creating a new avenue for income splitting by couples with spouses having discrepant incomes or wealth.

<sup>14</sup> Note that the Survey of Financial Security's concept of families includes unattached individuals.

other end of the income scale, \$150,000 and higher, TFSA holdings are 6.5 per cent of the total for individuals but nearly four times that share (24.0 per cent) at the family level. These results show clearly that many TFSA holders recorded with low individual incomes are members of families with significantly higher total incomes; this is a shortcoming of all the CRA's TFSA statistics. The results are suggestive of intra-familial income splitting and asset shifting via TFSAs.<sup>15</sup>

**TABLE 2: DISTRIBUTION OF TFSA ASSETS, 2012**

Income Group	By individual incomes	By family incomes
<\$20,000	16.9 %	3.9 %
\$20,000 – \$39,999	25.9 %	13.0 %
\$40,000 – \$59,999	20.6 %	14.3 %
<\$60,000	63.4 %	31.2 %
\$60,000 – \$79,999	12.8 %	14.6 %
\$80,000 – \$99,999	7.8 %	12.0 %
\$100,000 – \$149,999	7.9 %	18.1 %
>\$150,000	6.5 %	24.0 %
All groups total	100 %	100 %

**Note:** Computations by author.

**Sources:** TFSA assets by individual incomes: Canada Revenue Agency (misc.), Total Fair Market Value by TFSA holders by income at end of 2012;

TFSA assets by family incomes: Statistics Canada, Survey of Financial Security for 2012, special tabulations by Tristat Resources ([www.shillington.ca](http://www.shillington.ca)).

## TFSA USAGE BY OLDER WORKERS AND SENIORS

Another possible, and parallel, explanation for substantial participation in TFSAs by individuals at low and moderate incomes relates to the behaviour of older workers and seniors. In 2013, TFSA holders aged 55-plus with individual incomes below \$40,000 accounted for 28.3 per cent of all persons maximizing their TFSA contributions.<sup>16</sup> Holders aged 65-plus with incomes below \$60,000 accounted for 32.4 per cent of all maximizers. These figures suggest that TFSAs are particularly attractive to many older individuals not only as a means of reducing their income tax, but also as a way to increase their entitlements to Guaranteed Income Supplement and Old Age Security benefits (dodging the tax recovery

<sup>15</sup> Department of Finance Canada (2013, p. 41) reported that most married and common-law TFSA contributors whose individual incomes were below \$20,000 came from households with total incomes below \$80,000. Nevertheless, this inter-spousal transfer effect could still account for some skew in the reported rates for the lowest income brackets. Donnelly and Young (2012) describe a comparable bias in reporting of participation in the United Kingdom's tax-prepaid Individual Savings Account.

<sup>16</sup> These figures are derived from a table accompanying Oliver (2015). Apart from the information in this memo, which covers only the distribution of maximizers, figures on TFSA activity cross-tabulated by age and income of the account holder are not publicly available.

on higher-income recipients).<sup>17</sup> Financial advisers have begun devising various strategies for retirees and those approaching retirement to game the TFSA.<sup>18</sup>

An ironic aspect of the comparatively heavy use of TFSAs by retirees is that the provision was intended to encourage saving.<sup>19</sup> Most persons aged 65-plus have stopped working, and most are no longer in the saving stage of their lives, with many in the dissaving stage. Thus, for this group, the TFSA serves mainly as a tax minimization and benefit maximization device with minimal impact on net savings.<sup>20</sup> Significant additional saving is an unlikely outcome of the scheme for this age group; rather, shifting of taxable asset holdings into TFSAs is the more likely outcome.<sup>21</sup> Moreover, the relatively high rates of TFSA maximization by seniors observed in the early years of the scheme's existence are unlikely to persist long into the future; over time, maxing out will become much more concentrated among high-income and high-wealth seniors. The reason is that their younger counterparts will have had many years to contribute to TFSAs, such that they will reach retirement with far fewer or even nil taxable asset holdings.

## UNUSED TFSA CONTRIBUTION ROOM

Another measure of the adequacy of the TFSA contribution limits prior to their recent increase is the extent to which aggregate contribution room has gone unused. In 2013, among TFSA holders, while the average fair market value of holdings was \$11,037, the average unused contribution room was \$13,550.<sup>22</sup> That is, on average, TFSA holders had actually utilized less than half of their allowable contribution room by 2013.<sup>23</sup> Total unused TFSA contribution room among eligibles — including holders and non-holders — was an estimated \$592 billion in 2013.<sup>24</sup> This unused contribution room accumulated after only five

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17 Projections from various studies of the future cost impacts of TFSAs on the GIS and OAS programs are summarized in Kesselman (2015a).

18 For examples, see Vettese (2014), Chevreau (2014; 2015), Carrick (2015a; 2015b), Cestnick (2015), Marr (2014), and Pape (2015b).

19 In 2013, holders aged 65-plus comprised 45.1 per cent of all TFSA maximizers, and holders aged 75-plus comprised 22.6 per cent.

20 The 2015 federal budget's provision to reduce the minimum required withdrawal rates from Registered Retirement Income Funds weakened another argument for raising the TFSA contribution limit. Few RRIF beneficiaries will still need increased TFSA room to shelter excess withdrawals beyond current consumption needs.

21 One cannot rule out the possibility that some seniors are induced by the higher net rates of return afforded by TFSAs to reduce their rates of dissaving (equivalent to an increase in saving), but the low sensitivity of saving rates to net returns suggests that this would be a minor factor.

22 On account of investment earnings on TFSA balances, one would expect the two figures to add to more than the year's cumulative limit of \$25,500. Instead, the sum falls short of that figure, likely on account of TFSA withdrawals in 2013 not yet credited to the TFSA holder's limit.

23 Viewing the average unused TFSA contribution room by income of holders, the figures are remarkably stable near the aggregate average for incomes between \$15,000 and \$100,000, then declining with higher incomes and dropping sharply to \$7,000 for incomes of \$250,000-plus.

24 Computation of the aggregate amount of unused TFSA contribution room in a given year was done by taking the amount for holders (number of holders times their reported average unused room) and adding the amount for eligible non-holders (total population of eligible age minus number of holders, multiplied by the full cumulative limit in the respective year).

years of TFSA operation, and it compares with the \$790 billion of unused RRSP contribution room in 2013 accumulated since that scheme began allowing carry-forward of unused room in 1991. With unused RRSP contribution room rising by about \$50 billion per year and unused TFSA contribution room rising at more than twice that rate, total unused room for TFSAs is projected to exceed that for RRSPs by around 2017 even with the \$5,500 TFSA contribution limit.<sup>25</sup>

## DISCUSSION AND CONCLUSION

The Minister of Finance has applied TFSA data not publicly available to generate statistics portraying the government's 2015 hike to contribution limits as benefiting many Canadians at all income levels. This view has been relayed in the mass media and apparently gained traction with the public. One columnist<sup>26</sup> has synthesized the official narrative, writing, "It's not just high-income Canadians who appear to have maxed out their TFSA. ... Right across the income spectrum, significant percentages of Canadians appear poised to benefit from the increase in contribution limits" (Marr 2015a). A Nanos Research/Globe and Mail national opinion survey conducted in late April 2015 reflects widespread acceptance of the desirability of raising TFSA contribution limits; supportive responses outweighed opposed responses by more than two-to-one.<sup>27</sup>

Contrary to the government's messaging, all the evidence indicates that the increase of the TFSA contribution limit to \$10,000 will benefit only a very small proportion of Canadians. Even with the \$5,500 annual limit, just one out of 15 eligible individuals was able to contribute the full allowable amount in 2013. By the start of 2015, still fewer eligible persons would have used their full TFSA limits. Any increase in the limit will be of value to an ever-shrinking proportion of Canadians over the longer term. A major omission from the official message about TFSAs is the fact that more than three out of five eligible persons had not

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25 Figures on aggregate unused RRSP contribution by year are taken from Statistics Canada, Cansim Table 111-0040. Year-to-year changes in aggregate amounts of unused contribution room for RRSPs (TFSAs) were as follows: 2010 to 2011, \$51 billion (\$113 billion); 2011 to 2012, \$52 billion (\$119 billion); and 2012 to 2013, \$54 billion (\$132 billion). If many future TFSA contributions are funds diverted from what would have been contributed to RRSPs, it could take longer for the crossover in unused room to arise.

26 For another financial columnist similarly touting the widespread benefits of increased TFSA limits, see Pape (2015a).

27 Of all respondents, 34 per cent were supportive, 30 per cent "somewhat" supportive, 17 per cent opposed, 14 per cent "somewhat" opposed, and six per cent "unsure," for a net positive score of 33 per cent. However, overall support was much stronger for other mooted policy initiatives, with increasing Canada Pension Plan benefits leading the pack at a net positive score of 78 per cent. Responses to the question "If the Government of Canada increased the amount one could put in a TFSA ... [how likely would you be] to save more money by putting it into a TFSA within the next two years?" yielded highly unrealistic responses. Fifty-five per cent responded "likely" or "somewhat likely," with the remainder responding "unlikely," "somewhat unlikely," or "unsure." These figures are wildly out of line with past behaviour.

even opened an account by 2013, the scheme's fifth year of operation. In order to max out their cumulative TFSA contribution room even before the limit was raised in 2015, each of those individuals newly opening accounts would have had to contribute \$36,500.

Another key finding is that TFSA maximizers are relatively concentrated among older persons and high earners. While individuals aged 65-plus constituted just 19 per cent of all eligible persons, they accounted for 46 per cent of all TFSA maximizers in 2013. Yet, this relatively high maximization rate among today's seniors is a transitory phenomenon associated with the scheme's short existence. Even with the \$5,500 indexed annual limit, far fewer individuals from younger cohorts would approach retirement with the taxable financial assets needed to max out their TFSA, because they would have had many years to make contributions, and would also have very large cumulative TFSA limits. This point suggests that any pressure from seniors for higher TFSA limits should have been met, at most, by an additional allowance strictly for the current cohort of seniors and not by increased limits for all generations.

**An increase in the TFSA limit will be meaningless to the great majority of Canadians, while draining revenues from federal and provincial treasuries to the benefit of the wealthy.**

Few individuals under age 60 would ever max out TFSAs with the \$5,500 limit, since just 3.8 per cent of them — fewer than one out of 25 — had done so by the end of 2013, and each will have a cumulative limit that grows every year. With the indexed \$5,500 limit, an individual aged 18 today would be allowed to contribute over one-quarter of a million dollars before reaching age 65 — and those are in dollars of today's purchasing power. Making steady contributions and prudently investing the funds, the individual's TFSA balance at retirement could reach three-quarters of a million dollars or even exceed \$1 million — again, in dollars of current purchasing power.<sup>28</sup> TFSA contributions up to a \$5,500 limit, along with workplace pensions, RRSPs, Quebec and Canada Pension Plans, and investments in home equity or family businesses, should be more than adequate to meet the full retirement needs of all but the wealthiest Canadians. An increase in the TFSA limit will be meaningless to the great majority of Canadians, while draining revenues from federal and provincial treasuries to the benefit of the wealthy.

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28 For numerical examples of total accumulations possible in TFSAs, see Kesselman (2015a).

My analysis of evidence on the past behavioural patterns of TFSA holders and eligibles suggests that the scheme has been generating more asset shifting and income splitting than new savings.<sup>29</sup> The Parliamentary Budget Officer expressed a similar assessment: “TFSA contributions are expected to mostly originate from the reallocation of existing savings in taxable accounts. ... PBO therefore expects a comparatively small proportion of TFSA contributions will result in new savings” (Siekierski 2015). Further support for this view comes from the advice of a professional portfolio manager: “Wealthier clients, who have likely contributed the maximum \$36,500 under the old limit, can now start moving non-registered [taxable] investments into their tax-free accounts [with the increased annual limit]” (Bruno 2015). A recent empirical study utilizing microdata on TFSA contributors also finds that TFSA contributions mainly displace taxable financial assets rather than generate new savings (Lavecchia and Smart 2015).

My analysis of evidence on the past behavioural patterns of TFSA holders and eligibles suggests that the scheme has been generating more asset shifting and income splitting than new savings.

This study demonstrates that raising the TFSA limit to \$10,000 will yield disproportionate benefits to the highest earners and wealth holders, and that this tilt will mount over time.<sup>30</sup> These findings concur with those of the Parliamentary Budget Officer, who stated, “The contribution limit increases proposed in Budget 2015 would accentuate these distributional disparities [favouring] high wealth and older households” (2015, p. 3). The PBO report further projected that by 2045, households at low and middle wealth levels will not benefit materially from the increased TFSA limit. High-wealth households will devour the lion’s share of the tax savings from the increased TFSA limit. If anything, this study’s findings suggest the advisability of constraints on, rather than expansion of, TFSAs – ceilings on individuals’ lifetime contributions and/or how large their tax-free balances can grow.<sup>31</sup>

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29 Even Department of Finance Canada cites nearly one-quarter of a million individuals making TFSA contributions exceeding their reported incomes in 2011; it notes that this “could represent a transfer of existing assets held by the individual into a TFSA or the transfer of funds between members of a household” (2013, p. 41).

30 Other impacts of the increased TFSA limits are assessed in the longer version of this study (Kesselman 2015c): economic impacts (likely small) and revenue impacts (likely large).

31 For details on these and other reform recommendations for the TFSA program, see Kesselman (2015a). Note that a limit on the size of TFSA balances would also address the issue of account holders amassing large gains through short-term speculative investments, a matter that has concerned the CRA. See Marr (2014; 2015b).

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