RETIRING ON A LOW INCOME -

Learnings from the Toronto Library and The Ontario Non-Profit Housing Association Presentations

John Stapleton – Open Policy – October 2015

Five Presentations – September and October 2015 – 284 in attendance

- Albion Public Library: 85 people (35 over registration)
- Cedarbrae Public Library: 35 people
- Weston Mount Dennis: 56 people (largest daytime audience for a library event)
- ONPHA Conference: 40 people
- Agincourt Public Library: 68 people (23 over registration)
  - Mostly seniors and near seniors
  - Some there for themselves; other for aging or low income relative
  - Approximately 35 to 40% said they filed their own taxes
  - Almost 100% shopped at grocery stores (used grocery store analogies- coupons, specialty coupons, gift cards etc.)
  - A majority were immigrants and/or visible minorities
  - Sessions all were highly interactive –sometimes raucous with many interruptions, questions and many stayed on to ask individual questions

What were the key learnings?

- Audience knowledge
  - Very few understand (and are often afraid) respecting what they know and need to know about the four pillars of our public and private citizen-facing financial systems containing two systems and two sets of instruments:
  - 1. **The Personal Income Tax system** (Exemptions, deductions, refundable credits, RRSP room)
  - 2. **Canada and Ontario's Income Security System** (OAS, GIS, CPP, Allowance and treatment of other income, affects on RGI rent, social assistance, inheritances etc.)
  - 3. **Tax instruments** (RRSP, RESP, TFSA, RDSP, RRIF, etc.)
  - 4. **Investment Instruments** (Stocks, bonds, GICs, Annuities, Mutual Funds)

The 284 people in 5 audiences

- Highly motivated to learn
- Active participants
- Many were very anxious about their income situation
- Many had received bad advice
- Most were ‘fee resistant’ wanting to search out free sources of advice and assistance
- Most did not think they should have to pay for information or assistance
- Most were resistant to giving up long-held but completely incorrect information they had internalized.
- Were uniformly highly grateful for the presentation expressing loud gratitude to presenters.

The 284 people in 5 audiences

- 60 to 65% do not file their taxes themselves and don't understand the basics of personal tax system
- 35 to 40% file their own taxes but express lack of clarity over key concepts ("I just input the numbers")
- **Not one of the 284** could meaningfully explain the differences between exemptions, deductions, non-refundable credits, and refundable credits
- When asked to name examples of the above, more than 50% of the examples were wrong
- None of the 284 could provide an accurate definition of any of the four.

The Four Pillars: Common Issues

- 1. Personal Income Tax system
- 2. Canada's income security system
- 3. Investment instruments
- 4. Tax Instruments

- Issue #1:
- Confusion **between** systems and instruments
  - e.g. "you didn't say whether I should get a GIC or an RRSP"
  - "I was told I could deduct my rent off my taxes: true?"
  - "Can you put your charitable receipts into your RRSP?"
  - "I got a tax refund but my GIS is below the maximum – I took it to my MP but he is useless – he did nothing"

Issue #1: Confusion between systems and instruments

- It is clear that many low income seniors do not understand the most basic elements of their personal finances as it relates to tax, benefits, investment and tax instruments.
- Hover, **they feel strongly about how they think it works** and how it should work – often surprised to understand they are wrong
- In order to even begin their personal voyage to financial literacy, they must understand either by example or by concept, the fundamental differences between systems and instruments.
- All of the pillars interact with each other (e.g. OAS is taxable, RRSPs feature a deduction, Refundable credits are a feature of our income security system) but the role an function of the four pillars must first be understood. Their (often incorrect) biases must be addressed.

Issue # 2: Confusion within systems and instruments

- If no one among 284 motivated attendees:
  - Can explain the essential differences between an exemption, a deduction a non-refundable tax credit and refundable credits;
  - Can give examples of each of these four or consistently give incorrect examples

They will not begin to understand how these four tax features relate to:

- Tax and investment instruments;
- Canada’s income security system;
- RRSP room
- Documentation required

Issue # 2: Confusion within systems and instruments (Examples)

- "I am receiving social assistance and I save all my transit receipts like I am supposed to…. One tax place takes them and the other one told me to keep them. I'm going back to the place that takes them so I get a bigger refund"
- "My girlfriend deducts her car but they told my at Revenue Canada that I can't – how come she gets to do it but not me?"
- " How many years do you have to work in Canada before you get Old age?"
- "I worked for cash all my life and now they are saying I can't get CPP and my MP won't help – can you help?"

Issue # 2: Confusion within systems and instruments

- It is equally clear that a general lack of a working knowledge of very fundamental concepts is hampering people from making the first steps towards financial literacy.
- But………..
  - Financial institutions do not ask or know about Canada's income security system when selling them products even though it is fundamental to the customer's financial status.
  - Service Canada advises people to get financial advice that simply does not exist in the marketplace
  - Financial literacy programs often short cut a fundamental understanding of systems and instruments by:
    - simply saying what they are (not how they work for low income people) and
    - advising people to file their tax return and apply for benefits regardless of negative consequences.

Some Key pieces of advice are a surprise

- If you are low income:
  - Take early CPP unless you are on social assistance
  - Only get on the ‘grid’ after you have assessed what your creditors are doing
  - If some years under 65, stop buying RRSP’s and cash in the ones you have and pay any taxes owing
  - If over 65, consider using your RRSP room to increase your GIS
  - Buy a TFSA if you have any savings and any investment grade instrument is allowable.

We need to address why correct advice is surprising.

Next Steps

- Fund “Retirement on a low income” as a regularly available presentation and course
- Encourage Financial literacy courses to refrain from shortcutting basic concepts – they can be taught !
- Insist banks and financial advisors understand the income security system when dispensing investment advice
- Enroll low income ambassadors who understand the four systems and instruments of their personal financial world.
- For Governments to begin to understand our systems and instruments are much too complicated (and interact in ‘too many ways) for motivated Canadians to simply study them and understand them
- Watchdog and correct bad advice!