



Special Report

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Retirement: Ready or Not?

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While the total dollar amount of RRSP contributions in Canada is expected to increase to a record level of nearly \$33 billion in the 2006 tax year, this impressive performance masks some underlying concerns. Despite a strong economy and rising stock markets, RRSP contributions have not kept pace with income growth. Unused RRSP contribution room has ballooned to \$491 billion and continues to rise at a rapid pace. At the same time, the contribution gap between high income Canadians and the rest of the population is widening and the declining relative importance of employer-sponsored pension plans is doing little to remedy this gap.

Following the TSX's lead

Given today's low interest rate environment, it should come as no surprise that RRSP contributions dance mainly to the tune of the stock market. As illustrated in Chart 1, RRSP contributions are highly correlated with the performance of the TSX 300. And based on that correlation, it is very likely that the 14% gain in the TSX in 2006 will translate into 6% to 8% growth in RRSP contributions in 2006, building on an already impressive 6.2% gain in 2005.

Chart 1
RRSP Contributions & The Stock Market

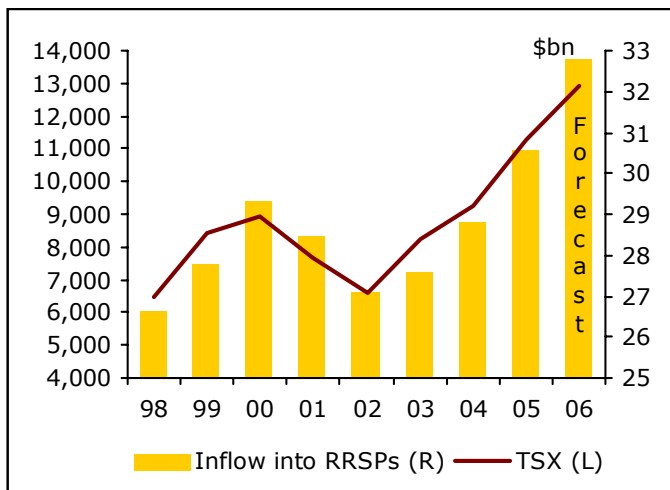
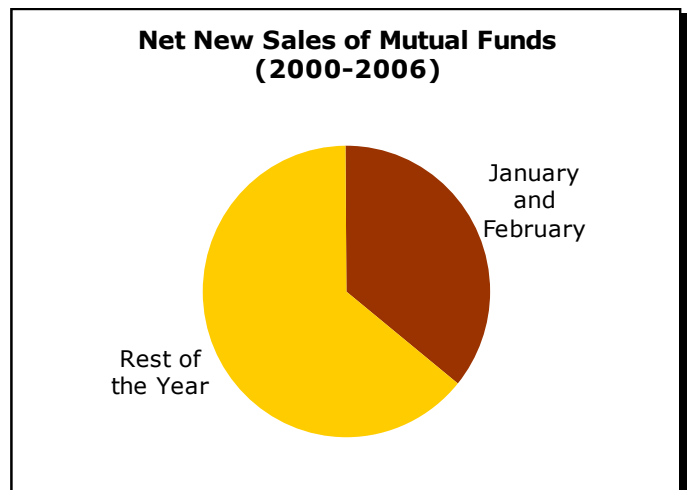


Chart 2
Waiting Until The Last Minute



Last Minute Contributions

Despite the repeated advice of financial planners that RRSP contributions should be distributed evenly during the year, most investors still wait until the last minute to make their RRSP contribution. During the past six years, one-third of the cumulated inflows into mutual funds occurred in January and February (Chart 2).

Growing Popularity Of Balanced Mutual Funds

Past behaviour suggests that at least half of the new inflow of RRSPs money will be channeled into mutual funds, with balanced funds likely to be the most popular choice among RRSP investors (Chart 3). A very small amount of this money is being directed towards money market mutual funds, as the love affair between Canadians and cash has ended. Throughout this decade, Canadian households have parked their money in low-yielding chequing and savings accounts and money market mutual funds — and in the process, accumulated no less than an estimated \$50 billion of excess liquidity. But this mountain of cash is now dwindling. Note that in 2006, money market mutual funds assets fell by 8.1%.

The Contribution Gap

The headline numbers are no doubt impressive, but they mask worrisome trends of falling contributions

relative to income and an ever-growing contribution gap between low and high income Canadians.

Despite the strong growth in overall RRSP contributions in 2005, only 38% of Canadians between the ages of 25 and 64 actually contributed during the year. And the size of contribution has hardly changed in the past few years, with a median contribution of \$2,030 per household in 2005 — roughly the same amount seen in 2003 and 2004. This, of course, means that when accounting for inflation, the median amount of RRSP contributions made by Canadians is, in fact, falling. Not only do RRSP contributions not keep pace with inflation, but they also do not keep pace with income. Median contribution as a share of median income has been on a clear downward trajectory since the beginning of the decade. As of 2005, it stood below the 6% mark — more than a full percentage point lower than the level seen in 1999 (Chart 4).

Low and falling median RRSP contributions translate into insufficient overall RRSP savings. The median amount of RRSP investments held by Canadians in 2005 was only \$30,000 per household. Naturally, older Canadians have the largest amount of RRSP savings, but even here the numbers are far from impressive. As of 2005, the median amount of RRSP investment held by Canadians age 55 to 65 was only \$60,000. In today's low interest rate environment, the interest payments on such savings would

Chart 3
Half of RRSP Contributions Are Channeled Into Mutual Funds & Balanced Funds Lead The Way

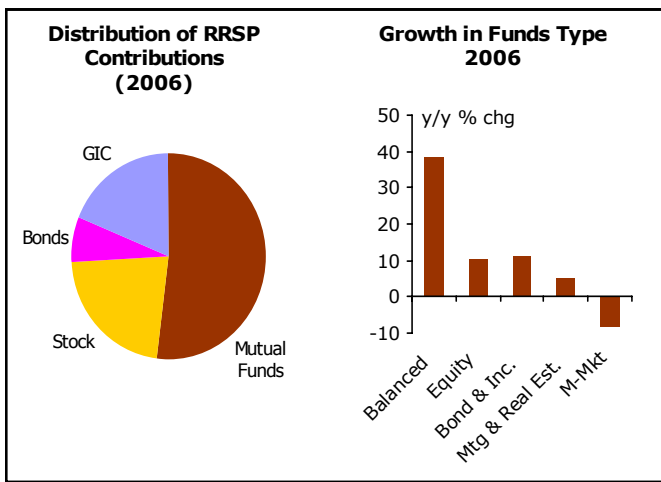
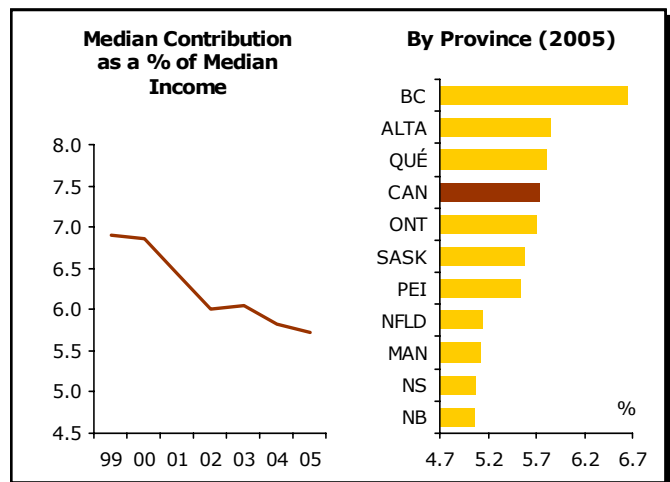


Chart 4
RRSP Contributions Not Keeping Pace With Income



amount to an income inflow of only a few thousands dollars a year.

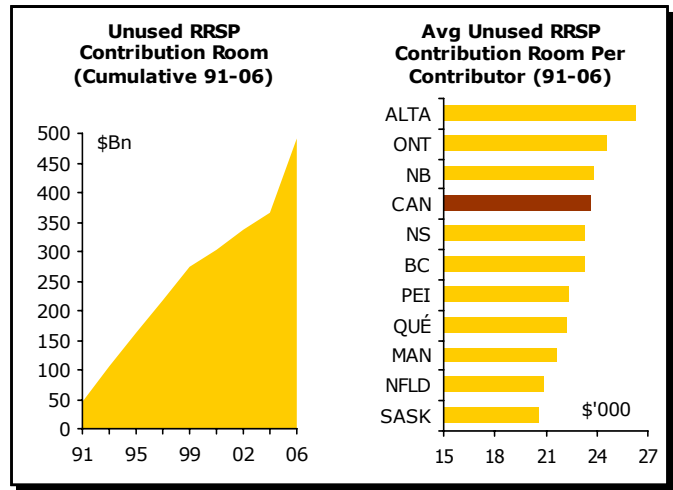
Given their insufficient RRSP savings, it's hardly a surprise that older Canadians are now contributing with a sense of urgency. As illustrated in Chart 5, when compared to 1999, Canadians between the ages of 55 and 64 have increased their RRSP contributions in 2005 by more than 40% — by far, the fastest growing segment of the RRSPs market. Note, however, that younger Canadians have, in fact, reduced their overall contributions — not an encouraging sign given the clear and growing need to start investing in RRSPs early in one's life.

Room To Grow

Nowhere is Canadians' under-contribution to their RRSPs more visible than in the ballooning unused RRSP contribution room. Almost 90% of Canadian tax filers had RRSP room in 2006. What's more, since the beginning of the decade, the dollar value of the cumulative unused RRSP contribution room has increased by more than 60% to reach \$491 billion (Chart 6). This amounts to \$23,700, on average, in unused contributions for each of the 20.7 million Canadians that have RRSP room in 2006 — up from \$15,000 in 1999.

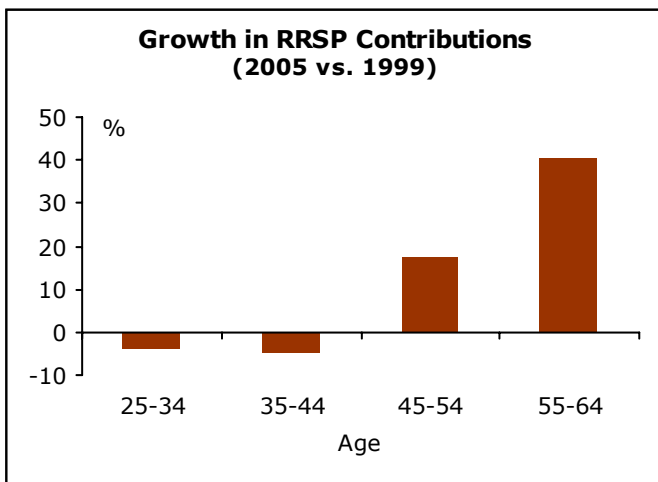
But how can we explain the conflicting signals we receive from the RRSP information available to us? That is, a very encouraging headline number, but a less encouraging picture when we dig a bit deeper.

**Chart 6
RRSP Contributions Not Maximized**

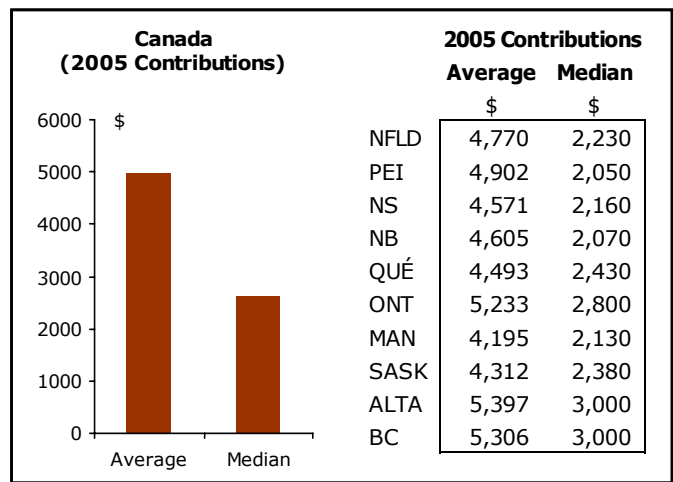


For that, we need to go back to Statistics 101 and, more specifically, to the difference between the mean value and the median value. As illustrated in Chart 7, there is a significant difference between the average RRSP contributions made by Canadian households in 2005 and the median contributions (or the mid-point dollar figure of the contribution spectrum). The average contribution of \$5,000 was more than double the median contribution. This difference is even more profound when comparing the mean and median values of overall RRSP savings per household, with the average total savings in 2005 of \$76,000 versus a median amount of only \$30,000. And from the introduction to Statistics, we

**Chart 5
A Race Against Time**



**Chart 7
Average vs. Median RRSP Contributions**



know that the more the average exceeds the median, the more the wealthiest households continue to increase in the overall RRSP contributions figure. In other words, the RRSP contribution gap between high and low income Canadians is widening.

This reality is illustrated in Chart 8, with Canadians who earn more than \$80,000 a year being the only group that increased its contribution in 2005 versus their 1999 level. Granted, this uneven contribution also reflects the impact of the age distribution, as younger Canadians (who, on average, earn less than older Canadians) reduced their RRSP contributions during this period. But, even if we control for this factor and focus only on Canadians between the ages of 35 and 64, we find that the RRSP participation rate among low income Canadians (those who earn less than \$30,000) in this age group is only 20% — remarkably low.

Filling Out The Retirement Picture

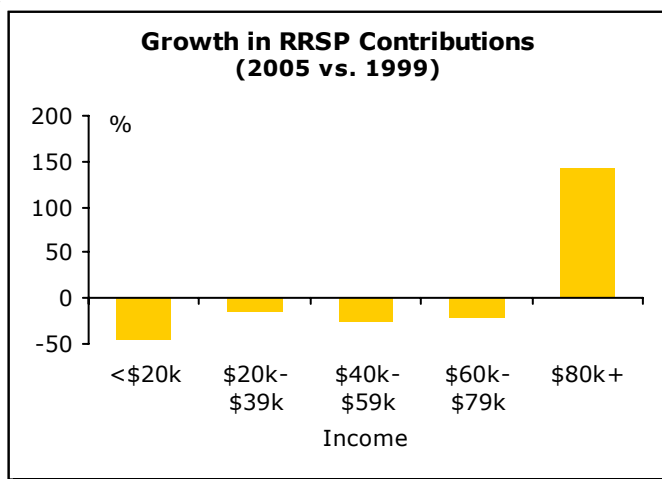
To be sure, RRSPs are only one element of Canada’s retirement picture, accounting for one quarter of reserves in Canada’s principal retirement programs. Employer-sponsored registered pension plans (RPPs)

account for close to 70% and the Canada/Quebec pension plans account for the rest.

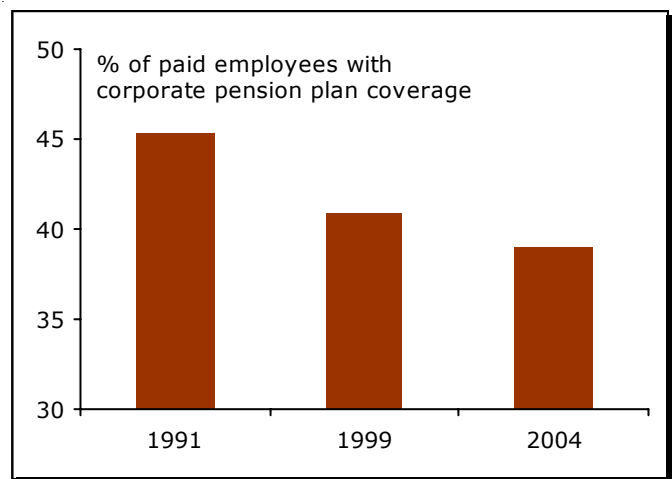
While employer-sponsored plans are, by far, the largest component of the retirement pie, their relative importance is on the decline. Based on recent Statistics Canada data, the number of employer-sponsored registered pension plans fell from over 18,000 in 1991 to around 15,000 in 2004. Furthermore, those pension funds cover fewer and fewer Canadians, with the coverage ratio (as a share of total employment) falling by six percentage points since 1991 (Chart 9).

More importantly, those pension plans do not help to remedy the unequal distribution of RRSP savings in Canada. In fact, the opposite is the case. According to Statistics Canada, roughly 30% of family units with \$100,000 or more in private pension savings hold no less than 90% of the value of these assets. The inevitable consequence of this reality is that an estimated 2.5 million family units (age group 35-64) currently live with little or no retirement safety net and the vast majority of them do not own their home. Those families would have to rely almost exclusively on Canada and Quebec pension plans for their retirement income.

**Chart 8
Uneven RRSP Contributions**



**Chart 9
Falling Pension Plan Coverage Ratio**



RRSP STATISTICS

RRSP CONTRIBUTIONS & CONTRIBUTORS

	No. of Contributors	Contributions	
		Total \$ 000s	Average \$
2001			
NEWFOUNDLAND	62,070	259,743	4,185
PRINCE EDWARD ISLAND	20,690	79,549	3,845
NOVA SCOTIA	139,190	574,546	4,128
NEW BRUNSWICK	105,600	422,116	3,997
QUÉBEC	1,548,010	6,484,184	4,189
ONTARIO	2,462,280	11,969,530	4,861
MANITOBA	221,850	852,208	3,841
SASKATCHEWAN	184,950	737,172	3,986
ALBERTA	680,100	3,262,503	4,797
BRITISH COLUMBIA	800,780	3,717,815	4,643
YUKON	5,990	28,922	4,828
NORTHWEST TERRITORIES	7,190	36,995	5,145
NUNAVUT	2,350	13,631	5,800
CANADA	6,241,050	28,438,914	4,557
2002			
NEWFOUNDLAND	59,860	248,004	4,143
PRINCE EDWARD ISLAND	19,390	78,551	4,051
NOVA SCOTIA	132,280	551,578	4,170
NEW BRUNSWICK	101,670	390,683	3,843
QUÉBEC	1,516,510	6,258,295	4,127
ONTARIO	2,349,330	11,227,411	4,779
MANITOBA	207,150	793,535	3,831
SASKATCHEWAN	171,410	670,223	3,910
ALBERTA	654,270	3,124,388	4,775
BRITISH COLUMBIA	764,190	3,650,061	4,776
YUKON	5,830	28,542	4,896
NORTHWEST TERRITORIES	7,240	37,313	5,154
NUNAVUT	2,320	14,229	6,133
CANADA	5,991,440	27,072,812	4,519
2005			
NEWFOUNDLAND	60,600	289,043	4,770
PRINCE EDWARD ISLAND	19,290	94,568	4,902
NOVA SCOTIA	133,110	608,457	4,571
NEW BRUNSWICK	102,390	471,483	4,605
QUÉBEC	1,549,330	6,960,750	4,493
ONTARIO	2,392,350	12,518,005	5,233
MANITOBA	206,110	864,548	4,195
SASKATCHEWAN	169,780	732,084	4,312
ALBERTA	702,900	3,793,826	5,397
BRITISH COLUMBIA	784,550	4,162,816	5,306
YUKON	6,020	31,916	5,302
NORTHWEST TERRITORIES	7,360	40,773	5,540
NUNAVUT	2,200	12,983	5,901
CANADA	6,135,980	30,581,252	4,984

2005 RRSP STATISTICS - BY AGE GROUP

By Age Group

CONTRIBUTORS	Total No.	0-24 yrs	25-34 yrs	35-44 yrs	45-54 yrs	55-64 yrs	65+ yrs
NEWFOUNDLAND	60,600	1,818	11,514	16,968	18,786	10,302	1,212
PRINCE EDWARD ISLAND	19,290	579	3,472	5,015	5,787	3,858	579
NOVA SCOTIA	133,110	3,993	25,291	35,940	41,264	23,960	2,662
NEW BRUNSWICK	102,390	3,072	20,478	27,645	31,741	17,406	2,048
QUÉBEC	1,549,330	61,973	309,866	418,319	480,292	247,893	30,987
ONTARIO	2,416,274	95,694	478,470	669,858	693,782	406,700	71,771
MANITOBA	208,171	10,306	39,161	53,589	61,833	37,100	6,183
SASKATCHEWAN	169,780	10,187	30,560	42,445	52,632	28,863	5,093
ALBERTA	702,900	42,174	147,609	182,754	203,841	112,464	14,058
BRITISH COLUMBIA & YUKON	798,355	39,408	142,242	205,548	237,352	150,148	23,657
CANADA	6,197,340	245,439	1,227,196	1,656,715	1,840,794	1,043,117	184,079

CONTRIBUTIONS (\$'000)	Total Amount	0-24 yrs	25-34 yrs	35-44 yrs	45-54 yrs	55-64 yrs	65+ yrs
NEWFOUNDLAND	289,043	2,890	31,795	69,370	101,165	75,151	8,671
PRINCE EDWARD ISLAND	95,514	946	8,511	18,914	26,479	35,936	4,728
NOVA SCOTIA	614,542	6,085	66,930	146,030	200,791	164,283	30,423
NEW BRUNSWICK	471,483	4,715	56,578	108,441	155,589	127,300	18,859
QUÉBEC	7,030,358	139,215	1,044,113	1,809,795	2,297,048	1,461,758	278,430
ONTARIO	12,518,005	125,180	1,752,521	3,254,681	3,880,582	2,879,141	625,900
MANITOBA	864,548	17,291	103,746	198,846	285,301	216,137	43,227
SASKATCHEWAN	732,084	14,642	87,850	168,379	256,229	168,379	36,604
ALBERTA	3,831,764	75,877	569,074	986,395	1,289,901	758,765	151,753
BRITISH COLUMBIA & YUKON	4,195,051	83,575	503,368	1,006,417	1,343,910	1,048,364	209,417
CANADA	30,887,065	611,625	4,281,375	7,951,126	9,786,001	7,033,688	1,223,250

AVERAGE CONTRIBUTIONS (\$)	Total Amount	0-24 yrs	25-34 yrs	35-44 yrs	45-54 yrs	55-64 yrs	65+ yrs
NEWFOUNDLAND	4,770	1,590	2,761	4,088	5,385	7,295	7,155
PRINCE EDWARD ISLAND	4,951	1,634	2,451	3,771	4,576	9,315	8,171
NOVA SCOTIA	4,617	1,524	2,646	4,063	4,866	6,857	11,428
NEW BRUNSWICK	4,605	1,535	2,763	3,923	4,902	7,313	9,210
QUÉBEC	4,538	2,246	3,370	4,326	4,783	5,897	8,985
ONTARIO	5,181	1,308	3,663	4,859	5,593	7,079	8,721
MANITOBA	4,153	1,678	2,649	3,711	4,614	5,826	6,991
SASKATCHEWAN	4,312	1,437	2,875	3,967	4,868	5,834	7,187
ALBERTA	5,451	1,799	3,855	5,397	6,328	6,747	10,795
BRITISH COLUMBIA & YUKON	5,255	2,121	3,539	4,896	5,662	6,982	8,852
CANADA	4,984	2,492	3,489	4,799	5,316	6,743	6,645

2005 RRSP STATISTICS - BY GENDER

				By Gender		
<u>CONTRIBUTORS</u>	Total No.	Males	Females			
NEWFOUNDLAND	60,600	35,754	24,846			
PRINCE EDWARD ISLAND	19,290	10,417	8,873			
NOVA SCOTIA	133,110	73,211	59,900			
NEW BRUNSWICK	102,390	58,362	44,028			
QUÉBEC	1,549,330	852,132	697,199			
ONTARIO	2,392,350	1,267,946	1,124,405			
MANITOBA	206,110	109,238	96,872			
SASKATCHEWAN	169,780	93,379	76,401			
ALBERTA	702,900	386,595	316,305			
BRITISH COLUMBIA & YUKON	790,570	418,701	371,869			
CANADA	6,135,980	3,313,429	2,822,551			
<u>CONTRIBUTIONS (\$'000)</u>	Total Amount	Males	Females			
NEWFOUNDLAND	289,043	193,659	95,384			
PRINCE EDWARD ISLAND	94,568	56,741	37,827			
NOVA SCOTIA	608,457	377,243	231,214			
NEW BRUNSWICK	471,483	306,464	165,019			
QUÉBEC	6,960,750	4,315,665	2,645,085			
ONTARIO	12,518,005	7,510,803	5,007,202			
MANITOBA	864,548	527,374	337,174			
SASKATCHEWAN	732,084	468,534	263,550			
ALBERTA	3,793,826	2,428,049	1,365,777			
BRITISH COLUMBIA & YUKON	4,194,732	2,556,872	1,637,860			
CANADA	30,581,252	18,960,376	11,620,876			
<u>AVERAGE CONTRIBUTIONS (\$)</u>	Total Amount	Males	Females			
NEWFOUNDLAND	4,770	5,416	3,839			
PRINCE EDWARD ISLAND	4,902	5,447	4,263			
NOVA SCOTIA	4,571	5,153	3,860			
NEW BRUNSWICK	4,605	5,251	3,748			
QUÉBEC	4,493	5,065	3,794			
ONTARIO	5,233	5,924	4,453			
MANITOBA	4,195	4,828	3,481			
SASKATCHEWAN	4,312	5,018	3,450			
ALBERTA	5,397	6,281	4,318			
BRITISH COLUMBIA & YUKON	5,306	6,107	4,404			
CANADA	4,984	5,722	4,117			

2005 RRSP STATISTICS - BY INCOME

By Income

CONTRIBUTORS	Total No.	<\$20k	\$20k-\$39k	\$40k-\$59k	\$60k-\$79k	\$80k+
NEWFOUNDLAND	60,600	5,454	18,180	16,362	10,302	10,302
PRINCE EDWARD ISLAND	19,290	1,736	7,330	5,401	2,508	2,315
NOVA SCOTIA	133,110	10,649	41,264	38,602	22,629	19,967
NEW BRUNSWICK	102,390	8,191	34,813	29,693	15,359	14,335
QUÉBEC	1,549,330	123,946	526,772	449,306	232,400	216,906
ONTARIO	2,392,350	167,465	598,088	669,858	430,623	526,317
MANITOBA	206,110	18,550	68,016	59,772	32,978	26,794
SASKATCHEWAN	169,780	15,280	52,632	45,841	30,560	25,467
ALBERTA	702,900	49,203	168,696	175,725	126,522	182,754
BRITISH COLUMBIA & YUKON	790,570	70,911	220,878	221,480	134,818	142,483
CANADA	6,135,980	490,878	1,718,074	1,718,074	1,043,117	1,165,836

CONTRIBUTIONS (\$'000)	Total Amount	<\$20k	\$20k-\$39k	\$40k-\$59k	\$60k-\$79k	\$80k+
NEWFOUNDLAND	289,043	5,781	40,466	57,809	54,918	130,069
PRINCE EDWARD ISLAND	94,568	2,837	16,077	20,805	16,077	38,773
NOVA SCOTIA	608,457	12,169	91,269	133,861	115,607	255,552
NEW BRUNSWICK	471,483	9,430	75,437	108,441	84,867	193,308
QUÉBEC	6,960,750	208,823	1,252,935	1,740,188	1,252,935	2,505,870
ONTARIO	12,518,005	250,360	1,502,161	2,503,601	2,378,421	5,883,462
MANITOBA	864,548	25,936	146,973	207,492	164,264	319,883
SASKATCHEWAN	732,084	21,963	117,133	161,058	153,738	278,192
ALBERTA	3,793,826	75,877	417,321	682,889	682,889	1,934,851
BRITISH COLUMBIA & YUKON	4,194,732	125,523	586,305	923,160	798,595	1,761,149
CANADA	30,581,252	611,625	4,281,375	6,727,875	5,504,625	13,455,751

AVERAGE CONTRIBUTIONS (\$)	Total Amount	<\$20k	\$20k-\$39k	\$40k-\$59k	\$60k-\$79k	\$80k+
NEWFOUNDLAND	4,770	1,060	2,226	3,533	5,331	12,626
PRINCE EDWARD ISLAND	4,902	1,634	2,193	3,852	6,411	16,750
NOVA SCOTIA	4,571	1,143	2,212	3,468	5,109	12,799
NEW BRUNSWICK	4,605	1,151	2,167	3,652	5,526	13,485
QUÉBEC	4,493	1,685	2,379	3,873	5,391	11,553
ONTARIO	5,233	1,495	2,512	3,738	5,523	11,179
MANITOBA	4,195	1,398	2,161	3,471	4,981	11,938
SASKATCHEWAN	4,312	1,437	2,226	3,513	5,031	10,924
ALBERTA	5,397	1,542	2,474	3,886	5,397	10,587
BRITISH COLUMBIA & YUKON	5,306	1,770	2,654	4,168	5,923	12,360
CANADA	4,984	1,246	2,492	3,916	5,277	11,542

UNUSED RRSP CONTRIBUTION ROOM - 1991-2006

	No. of Contributors with Unused Room	Unused Contribution Room	
		Total \$ 000s	Average \$
NEWFOUNDLAND	346,230	7,232,483	20,889
PRINCE EDWARD ISLAND	93,700	2,093,406	22,342
NOVA SCOTIA	604,040	14,080,932	23,311
NEW BRUNSWICK	498,580	11,879,189	23,826
QUÉBEC	5,066,530	112,821,052	22,268
ONTARIO	7,819,460	192,428,332	24,609
MANITOBA	723,790	15,666,619	21,645
SASKATCHEWAN	621,540	12,814,625	20,618
ALBERTA	2,183,510	57,283,973	26,235
BRITISH COLUMBIA	2,689,650	62,600,995	23,275
YUKON	20,880	587,522	28,138
NORTHWEST TERRITORIES	26,240	812,833	30,977
NUNAVUT	15,060	426,514	28,321
CANADA	20,709,200	490,728,474	23,696

Data sources used in this study: CIBC World Markets; Statistics Canada published and unpublished tabulations, Canadian Financial Monitor (CFM) special tabulations, conducted by Ipsos-Reid.

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