Senior and Retirement Security

Background

Canadians are living longer, and Canadian society is growing older.[1] As a result, the ratio of working-age Canadians (aged 15 to 64) to those 65 years and older is expected to fall from around 4.5 to 1 in 2013 to 2.3 to 1 by the late 2050s.[2] In 2014, the wave of baby boomers reaching normal retirement age continued to crest, fuelling a projected 3.6 million retirements over the coming decade.[3]

Canada's retirement income system is not fully equipped to deal with the challenge of an ageing population. A significant number of middle-income earners in the baby boom cohort are at risk of a sizeable drop in living standards when they retire. Varying estimates find that between 20% and 50% of middle-income households are not saving enough.[4] Looking beyond the fate of middle-income baby boomers, there is cause for further concern.

The greatest achievement of our retirement income system was a substantial reduction in poverty among seniors resulting from the maturation of Canada's compulsory earnings-based pension system.[5] In future, this system will face a very different context: longer lifespans coupled with later entry to the labour force, the decline of workplace pensions, and the spread of low-paid, insecure employment. Even sanguine observers concede that without government action the retirement savings gap will grow, and that it's likely retirees will be worse off in the future than they are today.[6]

The aging population, combined with uneven and uncertain market income growth, will put greater pressure on the provision of public pension income while simultaneously increasing its importance.[7] Yet despite growing evidence of the need for action, federal pension reform remains deadlocked. The government claims that fragile government finances and uncertain economic conditions rule out improved public pensions. Meanwhile, recent media portrayals have characterized pension reform as a plot to reward rich baby boomers at the expense of young workers.

Though concerns about intergenerational fairness are legitimate and deserve to be conceived broadly,[8] this caricature diverts attention from the significant increase in income inequality among seniors. The fact is that 1.7 million people — over 30% of the total senior population — receive at least partial Guaranteed Income Supplement (GIS) benefits, meaning they have annual incomes of just over $17,000 (if single), and $22,500 if they are in a couple with an Old Age Security (OAS) recipient.[9]

Current Issues

The Old Age Security pension (OAS) and the Guaranteed Income Supplement (GIS) comprise the foundation of Canada's retirement income system, providing a guaranteed annual income to 95% of Canadian seniors aged 65 and older. These benefits depend on residency and income rather than participation in paid employment. However, the federal government has committed to gradually increasing the age of eligibility for these benefits from 65 to 67 over a period of six years commencing in April 2023. Analysts dispute the government's claim that it cannot afford to pay these benefits at age 65.[10] In fiscal year 2013–14, the combined pension expenditures were $41.8 billion, with $31.9 billion going to OAS and $9.4 billion spent on GIS.[11]

In March 2014, the government tabled the Economic Action Plan 2014 Act, No. 1, which extended the period of ineligibility for GIS benefits for sponsored immigrants to the entire 20-year sponsorship period. The restrictions apply to immigrants who arrive under the parents and grandparents program, in which a sponsor living in Canada agrees to bear financial responsibility for his or her relatives. Currently, immigrants need to be in Canada for 10 years to be eligible for OAS and the GIS. Applications for OAS will still be allowed after 10 years, but 20 years will now have to elapse before an application for GIS can be made. When the restrictions begin in 2027, the estimated annual savings will be $23 million, rising to $700 million in 2036.[12] Immigrant seniors are at greater risk of being low income than are Canadian-born seniors, and recently arrived immigrant seniors are at greater risk than established immigrants. Therefore, denying access to GIS after 10 years can be expected to extend the duration in which immigrant seniors experience a low income.[13]

Canada's compulsory earnings-based pension, the Canada Pension Plan (CPP), remains stably funded. The 26th triennial Actuarial Report on the Canada Pension Plan, tabled in the House of Commons on December 3, 2013, reported that actual experience of the plan from 2010 through 2012 was better than anticipated. The valuation projected that the CPP combined contribution rate of 9.9% remains sufficient to sustain the plan to the year 2090. In fiscal year 2013–14, the CPP received $43.2 billion in contributions and paid out $37.3 billion in benefits, including $28.3 billion in retirement and post-retirement benefits. Some 13.5 million working people contributed to the CPP that year, and about 4.6 million seniors received CPP retirement benefits.[14]

At the December 2013 meeting of federal and provincial finance ministers, the federal government definitively ended discussions on whether and how to expand the CPP. As a result, the Ontario government has moved ahead with its own Ontario Retirement Pension Plan (ORPP). Ontario has not released all of the details, but it appears that the ORPP will be designed as a compulsory defined-benefit plan. Employers and employees would share contributions equally, with a combined contribution rate of 3.8% (1.9% each) on pensionable earnings up to $90,000 a year. The plan would seek to replace 15% of pre-retirement income. Coverage would not be universal, apparently excluding the self-employed and members of "comparable" workplace plans. The government of Ontario has committed to implementing the ORPP in 2017.

The percentage of paid workers in Canada with a registered pension plan at work has fallen from 46% in 1977 to only 38% in 2012.[15] In absolute terms, there were fewer members in private-sector plans at the start of 2013 than at the end of 2008, and the absolute numbers of defined-benefit plan members — 27.4% of workers overall and 11.5% of private-sector workers[16] — has been in near-continual decline since 2005.[17]

Strong investment returns during 2013 and the first three-quarters of 2014 led to dramatic improvements in the solvency funded status of defined-benefit plans. Nevertheless, sponsors continued to seek ways to reduce the funding risk and cost of meeting long-term liabilities. Employers, and especially public-sector employers, kept up a determined attack on defined-benefit pension plans by attempting to cap contributions and requiring members (active and retired) to bear the risk of a funding shortfall.

Governments in New Brunswick, Alberta, and now the federal government have explored the conversion of defined-benefit to targeted-benefit pension plans. In April, the federal government initiated consultations around introducing a targeted-benefit pension plan framework for federally regulated private-sector employers and for Crown corporations. These approaches have introduced a dramatic new step that would withdraw the legal protections on defined-benefit pension benefits earned through past service, as well as the legal requirement on employers to fund those benefits. These benefits would instead be converted to contingent targeted benefits that could be reduced in the future if the plan experiences a shortfall. In the new framework, pension benefits are provided to the extent that investment returns and the performance of the fund permit it; employers are no longer obligated to increase contributions, if necessary, to the extent required to fund the benefit.

While termed "shared-risk" plans, the effect of converting pension plans from defined-benefit to targeted-benefit is to shift risk from employers (whose future contributions are capped or strictly limited) to plan members (whose benefits may be reduced in the event of a shortfall). Retreating defined-benefit plans means that more workers will retire with workplace savings plans and retirement account balances in place of a secure pension.

AFB Actions

Increasing the eligibility age for OAS, GIS, and the Allowance or Allowance for the Survivor benefit will disproportionately negatively impact low-income seniors. Accordingly, the Alternative Federal Budget will return the age of eligibility to 65 (from 67) in the case of OAS and GIS, and to 60 (from 62) in the case of the Allowance or Allowance for the Survivor.

In light of the evidence of a significant retirement savings gap in Canada, and the inadequacy of private savings to bridge this gap, the AFB will also double the CPP's replacement rate from 25% to 50% of a retiree's pensionable earnings. Increased contributions will be phased in over a seven-year period. The current service cost of the CPP (the present value of the future CPP benefits earned in 2013) is an estimated $27.6 billion, or 6.4% of contributory earnings.[18] Increasing the combined contribution rate by 6.4%, from 9.9% to 16.3%, would be sufficient to double future retirement benefits, disability benefits, survivor and children's benefits, death benefits, and cover operating expenses as well.

In order to cushion the impact on low-income earners of increased CPP contributions, the AFB will cap RRSP contributions at $20,000, a level that will affect only those making $110,000 or more, saving $1.1 billion a year. The savings will then be allocated toward increasing the income tax credit for CPP contributions made by low-income earners.

The AFB will triple the GIS top-up for singles and double the singles turndown point for the GIS top-up. The result of this measure alone would be a 17% reduction in the poverty rate among seniors (After-Tax Low-Income Measure). (Cost: $1.2 billion a year.)

Finally, the AFB will cancel pension income splitting, which disproportionately rewards high-income families and creates fiscal disincentives for women to retain independent employment and pension income. (Savings: $1.1 billion a year.)

Notes

1 The results of a new study of Canadian pensioners' mortality released in February confirmed that life expectancies are increasing faster than previously assumed; Canadian Institute of Actuaries. (2014). *Canadian Pensioners' Mortality*. Ottawa: CIA-ICA.

2 Statistics Canada. (2014). *Canadian Demographics at a Glance*. Ottawa: Statistics Canada.

3 Employment and Social Development Canada, Canadian Occupation Projection System. (2014). *Job Openings (2013–22)*. Ottawa: ESDC.

4 Government of Ontario, Ministry of Finance. (2014). *Ontario's Long-Term Report on the Economy*. Toronto: Queen's Printer for Ontario, chapter 6.

5 Myles, John. (2000). *The Maturation of Canada's Retirement Income System: Income Levels, Income Inequality and Low-Income among the Elderly*. Analytical Studies Branch Research Paper Series No. 147. Ottawa: Statistics Canada.

6 Vettese, Fred. (2014). *Closing the Retirement Income Gap*. Toronto: Morneau Shepell.

7 Osberg, Lars. (2014). *Looking Forward: Social Security in an Era of Ageing, Inequality and Instability*. Halifax: Dalhousie University.

8 Wolfson, Michael C. (2011). Projecting the Adequacy of Canadians' Retirement Incomes: Current Prospects and Possible Reform Options. Montreal: Institute for Research on Public Policy Study no. 17.

9 Schirle, Tammy. (2009). *Income Inequality Among Seniors in Canada: The Role of Women's Labour Market Experience*. Vancouver: Canadian Labour Market and Skills Researcher Network (CLSRN), Working Paper No. 51.

10 Matier, Chris. (2012). *Federal Fiscal Sustainability and Elderly Benefits*. Ottawa: Office of the Parliamentary Budget Officer.

11 Receiver General for Canada. (2014). *Public Accounts of Canada, 2013–14: Volume 1*. Ottawa: Minister of Public Works and Government Services Canada.

12 Parliament of Canada. (2014). Evidence of the House of Commons Standing Committee on Finance. May 29, 2014.

13 Dempsey, Colleen. (2005). *Elderly Immigrants in Canada: Income Sources and Self-Sufficiency*. Ottawa: Citizenship and Immigration Canada.

14 Receiver General for Canada. (2014). *Public Accounts of Canada, 2013–14: Volume 1*. Ottawa: Minister of Public Works and Government Services Canada.

15 Statistics Canada, *Pension Plans in Canada* survey.

16 Statistics Canada, *Pension Plans in Canada* survey.

17 Statistics Canada, CANSIM table 280-0027.

18 Chief Actuary of Canada. (2013). *Actuarial Report (26th) on the Canada Pension Plan as at 31 December 2012*. Ottawa: Minister of Public Workers and Government Services Canada, p. 48.