Policy Issues on Retirement

Raising the Retirement Age

November 28, 2017

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Bernard Morency
RETIREMENT POLICY ISSUES
RAISING THE RETIREMENT AGE?

• Retirement policy issues
• Retirement age issues
• Arguments for
• Arguments against
• Working longer
• Employer pension plans
• Your views
THE CANADIAN RETIREMENT SYSTEM: A SUCCESS STORY

3RD FLOOR: SUPPLEMENTAL PLANS AND PERSONAL SAVINGS
- Variety of group and individual plans
- Voluntary
- Tax incentives

2ND FLOOR: CANADA/QUÉBEC PENSION PLANS (C/QPP)
- Mandatory for all workers
- Partially funded (intergenerational transfer)
- Finance 50/50 (employees/employers)
- Efficiently managed

1ST FLOOR: OLD AGE SECURITY (OAS) AND GUARANTEED INCOME SUPPLEMENT (GIS)
- Universal plans
- Social safety net
- Paid out of general revenues

Source: Retraite Québec
A SYSTEM DEVELOPED IN THE 1960’S TO FIGHT POVERTY AMONG THE ELDERLY

Poverty rates among Canadians aged 65 and over

Source: Retraite Québec
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sharing of responsibilities with a variety of programs</td>
<td>• Very dependent on the efficiency of the 3rd floor (private savings)</td>
</tr>
<tr>
<td>• Partial funding of C/QPP</td>
<td>• Cumbersome to make changes</td>
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</table>
SIGNIFICANT INCREASE IN COST SINCE THE MID-1990’S

Price to buy an annuity at age 65 (1970= 100)

(50% / 50% men / women)
REDUCTION IN THE NUMBER AND QUALITY OF EMPLOYER SPONSORED PLANS

- Over 40% of Canadians have no collective retirement plan
- Massive shift from Defined Benefits (DB) to Defined Contribution (DC) plans in the private sector (but not yet in the public sector)
- Strong growth in the number of members and assets invested in DC plans which means more responsibility for the individuals
- The 3rd floor has become « do it yourself » …. and not everyone is a handyman

Canada is now 11th of 35 countries (B rating) in the Mercer Global Pension Index
GOVERNMENTS HAVE IMPROVED THE C/QPP

NEW LAYER IN C/QPP

• Phased-in over 40+ years: matures in 2065
• Contributions of 2%/8% (50/50)
• Fully funded with no intergenerational transfer
• Modified DB: contributions and benefits may be adjusted if cost is greater (or lower) than 2%/8%
• Assets will grow rapidly and be managed by CPPib and CDPQ

Source: Retraite Québec
SUPPLEMENTARY C/QPP WILL BE MORE DEPENDENT ON INVESTMENT INCOME

Source: Office of the Chief Actuary of CPP
WORKED HARD TO ENSURE THERE ARE NO LOSERS

• No changes to current C/QPP

• Low income earners will receive additional benefits from the Workers Income Tax Benefit (WITB) program
  – Additional $750 M (vs. estimated cost in 2016 of $1.2B)
  – Compensate for loss of Guaranteed Income Supplement

• No change to the retirement age
  – Pension payable from Supplementary C/QPP is payable at age 65 even though the plans will not mature until 2065
WE’VE HAD A LOT OF BACK AND FORTH ON THE AGE 65

• March 2012 – Raise eligibility for OAS/GIS from 65 to 67… starting in 2023
• March 2016 – Pulled back because : « it was a mistake to raise the age to 67 »
• December 2016 – Consultation paper in Québec suggested a « longevity factor »
• February 6, 2017 – Advisory Council on Economic Growth suggesting age 67
• February 7, 2017 – J.Y. Duclos : « le gouvernement respectera sa promesse de fixer l'âge de la retraite à 65 ans car hausser l'âge de retraite à 67 plongerait des ainés vulnérables dans la pauvreté »
• November 2017 – No reference to age 65 or the longevity factor in proposed changes to QPP
OUR OBJECTIVE TODAY: START THE DISCUSSION AND LOOK AT THE ISSUE DIFFERENTLY

• Age 65 is much more than the target age for C/QPP and the eligibility age for OAS/GIS
  – Critical component of private pension and insurance plans and social security programs

• Retirement is not what it used to be
  – People want a smooth transition from working full time to being retired full time
  – Distinction between electing to receive their pension and actually retiring
  – People save to be financially independent in order to have some flexibility as to when they want to retire

• Significant cost pressure in Canada and elsewhere
  – CD Howe report on cost of Health care and WEF “We will to be 100 years old”

• It might be time to revisit and redefine the whole concept of retirement and look at age 65 in a radically different way
SHOULD WE DISTINGUISH THE AGE OF ELIGIBILITY TO A PENSION AND WORKING LONGER?

<table>
<thead>
<tr>
<th>Demography</th>
<th>• Increase in life expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>• Sustainability of retirement and other programs</td>
</tr>
<tr>
<td>Economy</td>
<td>• Work place participation of older workers</td>
</tr>
</tbody>
</table>
RAISING THE RETIREMENT AGE

THERE ARE DIFFERENT ISSUES

ELIGIBILITY FOR OAS AND C/QPP DOES NOT MEAN TO STOP WORKING

Eligible for OAS and C/QPP?

To stop working?

Should tax incentives and senior discounts be triggered?

Normal/early retirement age for DB plans?

Should income protection cease?
### FOR THOSE IN FAVOR OF RAISING THE RETIREMENT AGE

A 10-year increase in retirement years

<table>
<thead>
<tr>
<th>Argument</th>
<th>Male age 65</th>
<th>Female age 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in longevity</td>
<td>1966: 78.6</td>
<td>1966: 81.9</td>
</tr>
<tr>
<td></td>
<td>Now: 84.7</td>
<td>Now: 87.3</td>
</tr>
<tr>
<td></td>
<td>2050: 88.5</td>
<td>2050: 90.5</td>
</tr>
</tbody>
</table>

- Male age 65:
  - 1966: 78.6
  - Now: 84.7
  - 2050: 88.5

- Female age 65:
  - 1966: 81.9
  - Now: 87.3
  - 2050: 90.5
RETIREMENT AGE – OAS/QPP
HISTORY

• Before 1950: OAS at age 70
• 1960’s – OAS-C/QPP – At age 65
• 2010’s
  – Between 65-70 OAS
  – Between 60-70 C/QPP
  – No working test
  – OAS at 67
  – OAS at 65
  – Expanded C/QPP at 65
### NO SINGLE RETIREMENT ELIGIBILITY AGE FOR C/QPP

<table>
<thead>
<tr>
<th>AGE WHEN FIRST RECEIVED</th>
<th>PENSION % – QPP COVERED EARNINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>16%</td>
</tr>
<tr>
<td>65</td>
<td>25%</td>
</tr>
<tr>
<td>70</td>
<td>36%</td>
</tr>
</tbody>
</table>

7.2%/year reduction before age 65  
8.4%/year increase after age 65
ARGUMENTS USED FOR RAISING THE RETIREMENT AGE

- Current OAS, C/QPP not sustainable
- Cost of OAS, C/QPP should be reduced
- Increase in health care cost
- Shortfall in savings unless later retirement
- Will result in higher economic growth

Other countries are doing it
# IS OAS SUSTAINABLE?

## Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.01%</td>
</tr>
<tr>
<td>2030</td>
<td>2.47%</td>
</tr>
<tr>
<td>2060</td>
<td>2.14%</td>
</tr>
</tbody>
</table>

## Key assumptions

- Price vs. wage increase
- Growth in GDP

Arguments

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IS C/QPP SUSTAINABLE?

CPP: 9.9% + 2% for expansion
QPP: 10.8% + 2% for expansion

• Funding policy
  – Steady state funding
  – Stable ratio of assets/expenditures
  – Adjustment of indexation
  – Full funding for improvements

• Key assumptions
  – Longevity improvement
  – Real wage increase
  – Immigration
  – Fertility
  – Participation rates
  – Returns
OAS, C/QPP COST SHOULD BE REDUCED

• But our cost is lower than other OECD countries, including USA

• Cost of expanded C/QPP has been largely accepted
  – Small employers: Affected by minimum wage increase
  – Younger families: Prefer to reimburse mortgage later
  – Larger employers: May adjust their plans
OTHER COUNTRIES ARE DOING IT
RAISING NORMAL RETIREMENT AGE PAST 65

• Australia
• Denmark
• Iceland
• Ireland
• Italy
• Netherlands
• Norway
• United Kingdom
• United States

For some, to reduce expected increase in social security cost
Arguments for

Health care expenditure per capita by age group, Canada, 2014

Note: Health costs are relatively high for newborns in their first year life. For example, according to CIHI (2016), in 2014 spending on newborns under the age of 1 amounted to 2.9 percent of total health care spending in Canada.

Sources: CIHI, 2016; Statistics Canada, CANSIM Table 051-0001; calculations by authors.
RAISING RETIREMENT AGE WILL RESULT IN HIGHER ECONOMIC GROWTH
IF RETIREMENT ELIGIBILITY AGE IS RAISED, WILL CANADIANS WORK LONGER?

• Eligibility for OAS, C/QPP: no working test
• 70+% of Quebec residents elect to receive QPP pension at age 60, but 50% continue to receive employment income: Why?
  – Is QPP an income replacement or deferred consumption?
  – Fear of early death
  – Advice from financial planners
DO WE UNDERSTAND WHY CANADIANS RETIRE?
REASONS WHY WORKERS WILL RETIRE EARLIER THAN PLANNED

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>29</td>
</tr>
<tr>
<td>Job loss</td>
<td>25</td>
</tr>
<tr>
<td>Family responsibility</td>
<td>14</td>
</tr>
<tr>
<td>Save enough</td>
<td>9</td>
</tr>
<tr>
<td>Windfall</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Aegon World Survey
IF THERE IS A SHORTFALL IN RETIREMENT SAVINGS, CANADIANS WILL ADJUST

• Retire later
• Save more later in career
• Seek high returns
• Reduce transfers to children
• Use housing capital
• Consume less after retirement
NEXT GENERATION WILL RECEIVE PENSIONS OVER A LONGER PERIOD. IS THIS EQUITABLE?

- UK proposal
  - Self-adjusting mechanism
  - Maintain a constant ratio
    - Retirement / adult life = 1/3
  - Reduce transfers between generations

- But, there are many other transfers between groups
  - Male vs. female
  - Low vs. high income
  - Health vs. sick

- And other transfers between generations

- And, how to know whether 1/3 is the answer for the next generation?
ARGUMENTS AGAINST RAISING THE RETIREMENT AGE

- Older workers becoming disabled / unemployable around age 65
- Low income with shorter life expectancy (5-year difference between social classes?)
- Workers in selected occupations (physically demanding jobs) unable to work late

<table>
<thead>
<tr>
<th>Solutions?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longer disability benefits</td>
</tr>
<tr>
<td>Lower contributions</td>
</tr>
<tr>
<td>Special early retirement age</td>
</tr>
</tbody>
</table>
MANY CANADIANS SHOULD NOT ASK FOR OAS AND C/QPP WHEN THEY RETIRE, BUT USE PRIVATE SAVINGS FIRST

AN EXAMPLE: RETIRE AT AGE 65 WITH RRSP ASSETS

Options

1) OAS / C/QPP at age 65
   - Plan full withdrawal of RRSP until expected death
   - Level income until depletion of RRSP

2) OAS / C/QPP at age 70 with 36% increase
   - Higher RRSP withdrawal – 5 years
   - Level income with better longevity projection
ASK FOR OAS AND C/QPP AT 65
ASK FOR OAS AND C/QPP AT 70 AND WITHDRAW RRSP FIRST
BETTER LONGEVITY PROJECTION
CAN WE SAY THAT THE RETIREMENT AGE IS ALREADY 70?
DURING LAST 10 YEARS, OLDERs ARE WORKING LONGER BUT QUEBEC IS STILL LAGGING

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>55-59</td>
<td>60-64</td>
</tr>
<tr>
<td>Canada</td>
<td>69.1%</td>
<td>45.0%</td>
</tr>
<tr>
<td>Ontario</td>
<td>70.9%</td>
<td>48.9%</td>
</tr>
<tr>
<td>Quebec</td>
<td>63.9%</td>
<td>36.8%</td>
</tr>
</tbody>
</table>

Source: Statistics Canada

• Because
  – No downsizing
  – Better education
  – Female participation
## Why Are Older Canadians Not Working Like New Zealand?

<table>
<thead>
<tr>
<th></th>
<th>55-59</th>
<th>60-64</th>
<th>65-69</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quebec</td>
<td>73.8%</td>
<td>48.5%</td>
<td>19.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>75.4%</td>
<td>54.8%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>82.0%</td>
<td>65.8%</td>
<td>44.0%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>82.6%</td>
<td>73.9%</td>
<td>43.2%</td>
</tr>
<tr>
<td>Iceland</td>
<td>87.5%</td>
<td>84.9%</td>
<td>56.5%</td>
</tr>
<tr>
<td>USA</td>
<td>71.5%</td>
<td>55.8%</td>
<td>32.2%</td>
</tr>
<tr>
<td>France</td>
<td>76.0%</td>
<td>30.1%</td>
<td>6.5%</td>
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</table>
According to ILO, we should expect another 10% increase in participation rate by 2050. Most people aged 65 will be working!

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2016</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55-64</td>
<td>49.2%</td>
<td>65.0%</td>
<td>74.5%</td>
</tr>
<tr>
<td>65+</td>
<td>6.6%</td>
<td>14.1%</td>
<td>25.9%</td>
</tr>
</tbody>
</table>

Source: ILO projections

Arguments against
Next Generation May Not Need Retirement Income Replacement Before Age 65

Why is C/QPP Payable at 60?

• Because they may be working
  – Insufficient savings (low interest rate)
  – Labor shortage
  – Availability of employment

• And by 2050, 50% of workforce will be independent contractors – What is retirement?
SHOULD THE ELIGIBILITY AGE BE RAISED?

**LEAVE IT – NO DAMAGE**

- Some will over-save
- Many will work past age 65
- Most should defer pension past age 65

**RAISE IT – ANOTHER MESSAGE**

- Some will be nudged to work longer
- Better target for retirement planning
IS A LABOR SHORTAGE COMING?
ACTIVE POPULATION IS NOT INCREASING IN QUEBEC

Source: Statistics Canada

Historical data
Predictions
ARE EMPLOYERS INTERESTED IN KEEPING OLDER WORKERS?

• Is a labor shortage coming?
  – CPQ survey: 70% recruiting is a challenge, but immigration might be the answer

• Work can be outsourced

• Is the cost of younger workers lower?

• Can working conditions be adjusted and employment after age 65 terminated at will?
**IF EMPLOYERS WITH DB PLANS WANT TO KEEP OLDER WORKERS**

- Stop early retirement conditions with subsidies (public sector)
- Amend legislation to allow normal retirement date after age 65 and to adjust early retirement conditions
- Let pensions increase if work after age 65
- Allow pension payments while working
- Pay commuted values
Raising retirement age is not the answer to sustainability of OAS and C/QPP, but would help for health care costs.

Continue to delink receiving pensions and working.

Keep flexibility to choose when to receive pension.

Reduce early retirement subsidies in registered plans.

Canadians will work longer, but need to get employer support.

C/QPP at age 60 will not be needed and should be increased gradually.

Plan for raising normal retirement date of 65 with long transition.

Without reduction in benefits at 65.

With reduction in benefits at 65.

Maximum age should be raised to 75 for C/QPP and withdrawal of RRSP.

Need to start the debate.