



***Retirement Income Policies: Reform Pressures over the Coming Decade  
A Discussion Paper***

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June 2019**

**Summary**

A new paper released by the Council on Aging of Ottawa argues that Canada's retirement income system is in need of more and bigger changes. If Canadian policymakers take a new approach, we could improve the well-being of Canada's poorest seniors and improve the standard of living of other seniors. But this does not necessarily have to come with major additional costs to taxpayers, governments or private pension plans.

The last several reforms to seniors benefits in Canada have moved back and forth between finding ways, on the one hand, to make sure people have adequate incomes in older age and, on the other, to manage the long-term costs of programs for an aging population. As in many countries, the worry has been that when the baby boom generation retires, there won't be enough people of working age to support the growing share of older people. How will we cover the costs of public pensions and benefits and especially the costs of health and long-term care of an older population when life expectancy keeps rising but total years spent working stay about the same? The most common policy change in most countries has been to encourage older adults to work longer and change public pensions so that benefits only start to be paid at an older age than under current rules.

We hear the same 'grey tsunami' rationale regularly in Canada too, even if rules on the age at which public pension benefits can start have not been changed (in a lasting way) for more than half a century. But compared to so many other countries, Canada is in a really fortunate position on pension reform for two reasons. First, Canada's retirement income system, with a mix of public pensions, workplace pensions and private savings, already offers a lot of choice and flexibility. The second is that older adults in Canada are already working longer, on average. In the last 20 years, the employment rates of older workers have increased substantially. In fact, we can expect that the average age of "retirement" won't be 65, as most policies assume,

but could be 68 years old or even higher. What's more, this change has happened without any changes to age of eligibility for Canada's public pensions. Even though it is possible to start CPP and OAS after age 65 and up to age 70, the data suggest very limited take-up of the option to delay past age 65. The anchor point at age 65 really does seem to anchor when people start to claim benefits, even if they aren't truly "retired".

At the same time, there are many different pathways that Canadians follow as they move from "working" to "retirement". We need a system that does a better job of handling these differences.

If we stick with the current rules, most Canadians could still be working and earning money well after they start collecting public pension benefits. Meanwhile, those older workers who can't work any longer – whether because of illness, disability, or the demands of their job, or the need to care for an ill family member – will continue getting lower public benefits relative to what Canada could afford under a better system. These facts alone should shed a whole new light on the way we think about pension reform. We can look for new and better ways to bring our public pension programs more in line to the different ways that Canadians make the transition from work to retirement, now and into the future.

The current anchor point of age 65 in public pension programs could be raised keep pace with changes in age at "retirement" among older workers, while keeping the flexibility that lets some Canadians claim benefits at a younger age. This would mean that public pensions would not have to pay out as many years of pension benefits and could instead focus on paying them when and where they are really needed. In turn, this would lead to major cost savings for public pension programs, savings that could be used to increase the dollar value of the benefits when these are paid. Similarly, it would allow money to be used for other high priority areas for Canada's seniors like long-term care. These reinvestments should focus on the key gaps in Canada's current retirement income system that most affect single women, immigrants and our oldest and poorest seniors.

More years working would also make it easier for many Canadians to save for retirement. More time working would leave more time for saving and would shorten the length time that those retirement savings would need to last. Similar changes to workplace pensions to match the start of benefits to the end of working-life rather than a fixed age, would also reduce employer and employee costs of pension plans. When it is easier to build retirement savings, Canadians can enjoy an increase in their standard of living in retirement and more choice, throughout their working years, in balancing paid work and unpaid care.

A package of reforms that allows more flexibility in a starting age for benefits could also be designed to protect those who are most hurt when the official retirement age rises. These are most often lower skilled and low-income workers who are most dependent on Canada's public pension systems and may not have the same option to work longer. For example, the age-related rules for the Guaranteed Income Supplement do not have to rise to match changes to

the rules for Old Age Security or the Canada Pension Plan. There are many ways to imagine a package of pension reforms to protect the most vulnerable and improve well-being for seniors without increasing the overall cost of Canada's retirement income system.

But that work of imagination among policymakers will not be easy. The diversity of our existing system and the diversity of the pathways Canadians are taking in moving from working-life to retirement mean that there is a lot of complexity involved. While we can and should pursue a new policy direction on the assumption that many more people are working past age 65, policymakers need to invest in better data and analysis today to develop good policy options. Policymakers also need to get public buy-in before changing any of the basic rules of our retirement income system. Canada doesn't currently have the right data to know how best to design policy. We need to better understand the full range of differences in how, when and why older workers stop working so that we can get to a new concept of what it means to "retire". That data should feed the design of different options that can be put to the Canadian public to let Canadians understand how different reforms could work in practice, with different trade-offs in costs and benefits for Canadians in different circumstances. The discussion paper, [\*Retirement Income Policies: Reform Pressures over the Coming Decade\*](#), starts this conversation.