



## ***Summary***

### ***Canada's Retirement Income System: A Reform Agenda***

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Canada's retirement income system (RIS) has gone a long way in meeting its key objectives – alleviating poverty and avoiding serious declines in the people's standard of living in retirement – for most but not all of the current elderly. Moreover, the RIS has been strengthened in a number of ways in recent years. Benefits provided by the Guaranteed Income Supplement (GIS) have been increased and higher benefits from the Canada Pension Plan (CPP) are being phased-in. Commitments have been made to improve the data and analytical capacity that is necessary to manage the RIS.

Despite this generally favourable situation, there are two reasons for focusing attention on a possible reform agenda. First, while Canada's RIS has much to commend it, there is room for improvement. Second and more importantly, the outcomes generated by the RIS in terms of both its costs and the incomes it provides are changing continuously as the RIS and its component parts interact with an ever-changing demographic, labour market, economic and financial environment. Stable rules with respect to financing and benefits do not mean stable outcomes. Thus, even though Canada's RIS has been designed and managed to be sustainable over long periods of time, constant evolution and adaptation characterizes its actual history and there is good reason to believe that this will continue in the future.

It is also important to note that Canada's RIS is very complex. Key components parts are managed by each of the federal and provincial governments and privately managed workplace pension plans (WPPs) also play an important role. Moreover, while the component parts sometimes play a complementary role in relation to each other, in some cases they can also limit each others' effectiveness. Thus for, example, interactions between the recently introduced increases in CPP benefits and the income-tested GIS and provincial supplements to the GIS result in low earners getting little benefit from the CPP increases: increased CPP benefits result in lower GIS benefits and provincial supplements where they exist.

One of the key objectives of Canada's RIS is to support people's maintenance of their standard of living in retirement. The CPP and WPPs are designed to meet this objective. But in recent years, WPPs have encountered a number of problems. The rate at which employed Canadians participate in them has declined and there has been a shift from defined benefit (DB) to defined contribution (DC) plans. Many workplaces are too small on their own to provide good pension plans. And, the financial environment has changed in ways that have increased the cost of WPP benefits and made the costs more variable.

Given the developments just noted and the trends documented in the companion paper [\*Retirement Income Policies: Reform Pressures over the coming Decade\*](#) it is important to maintain a focus on reform possibilities.

The paper identifies a number of possible reforms to components of the RIS. They are offered as possibilities for discussion rather than definitive proposals for reform. They need more analytical work and public engagement before they can become concrete proposals.

Both the average entry age into the labour force and the average exit age have increased and, just as importantly, entry and exit ages have become more diverse. As a result, we think some thought needs to be given to finding alternatives to a fixed chronological age as a basis for defining eligibility for retirement benefits.

There is now a significant level of employment beyond age 65 so that benefits paid at 65 are increasingly supplementing employment income rather than providing retirement income. Moreover, it is a moot point whether the existing provision of income support at 65 is the most useful way to spend money on older Canadians. A gradual increase in the age at which retirement benefits commence could be used to finance improvements that start at a later age – like making sure that benefits keep pace with increasing longevity and wage growth and/or to long term care of health services. But, any move to increase the age of eligibility needs to be coupled with measures to limit the negative impact on low earners.

In recent decades the balance between OAS and GIS in providing a minimum income guarantee has swung strongly toward GIS. This has produced fiscal gains, but it has also resulted in disincentives for low earners to save for retirement and to take employment once eligible for GIS. The disincentives are a matter of concern. We understand that reversing the trend to rely on GIS versus OAS is expensive.

Despite the recently initiated increase in CPP benefits debates over the proper level of CPP benefits will likely continue – especially given the difficulties faced by WPPs. Several alternatives to increasing the CPP benefit rate on the existing definition of contributory earning should be explored:

- 1) increasing contributions and benefits only on earnings above about one half average wages and salaries;

- 2) increasing contributions and benefits only for people who do not belong to a WPP that meets certain standards; and,
- 3) providing a new lifetime benefit that starts at age 75.

It is likely that WPPs will continue to play an important role in Canada's RIS in the future even if further increases in CPP benefits are adopted in the future. It is important that Canada's regulatory and tax laws be reviewed with a view to accommodating plan designs that incorporate elements of both defined benefit and defined contribution. Further thought needs to be given to a regulatory regime for plans in which member representatives have half the voting rights on governing bodies that is based more on principles or objectives. A rules-based regime would remain in place for plans in which governance is dominated by employers.

It is also important to support the creation of organizational platforms that will provide decent WPPs at small workplaces.

A regular process for reviewing tax rules for WPPs and retirement savings needs to be established. A few specific issues that need attention are:

- 1) Determining whether tax support should focus more on getting people started with retirement savings versus ongoing support.
- 2) Strengthening tax support for low and middle earners;
- 3) Reviewing the distributional impact of tax support for retirement savings and pension splitting between spouses.

Given both the complexity and the ever-evolving nature of the RIS, monitoring the RIS needs to be an ongoing activity and one that involves high degrees of co-ordination within and between governments. This activity needs to be supported by closing serious data gaps that currently exist and by the development of micro-simulation modelling capacity that is not yet in place. In addition, the transparency of the RIS and its governance should be strengthened by regular reviews of the recent changes to the RIS and assessments of the income situation of the current elderly. The [\*OECD's Pensions at a Glance\*](#) could serve as a model. And these reviews should be supplemented by a less frequent review of the retirement income prospects of the future elderly that would serve as a basis for regular stakeholder engagement on Canada's RIS.

As noted at the outset, there is much to commend about Canada's RIS. But there is much room for improvement and the history of our RIS (and that of other countries) makes it clear that a continual process of adaptation will be part of the future of the RIS. Much of the near-term preparation for that should involve closing data gaps, developing modelling capacity and preparing for stakeholder engagement. We expect too that a number of the issues raised for discussion in the paper will be considered in the future. Assessing them thoroughly should be part of the process of preparing for engagement.