Improving Canada's Retirement Income System

A Discussion Paper on Setting Priorities

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Improving Canada's Retirement Income System: A Discussion Paper on Setting Priorities

The goal of this discussion paper is to provide an overview of Canada's retirement income system (RIS), to identify challenges to improve retirement financial security in Canada, and to foster discussion and build consensus for further action. As a follow-on to this paper, the National Institute on Ageing (NIA) will be organizing online and in-person consultation opportunities for experts, academics, and industry partners. This will help the NIA set priorities among the challenges and help to identify the steps necessary to move forward.

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About the National Institute on Ageing and Acknowledgments

The National Institute on Ageing (NIA) is a public policy and research centre based at Ryerson University in Toronto. The NIA is dedicated to enhancing successful ageing across the life course. It is unique in its mandate to consider ageing issues from a broad range of perspectives, including those of financial, physical, psychological, and social well-being.

The NIA is focused on leading cross-disciplinary, evidence-based, and actionable research to provide a blueprint for better public policy and practices needed to address the multiple challenges and opportunities presented by Canada's ageing population. The NIA is committed to providing national leadership and public education to productively and collaboratively work with all levels of government, private and public sector partners, academic institutions, ageing-related organizations, and Canadians.

The NIA further serves as the academic home for the National Seniors Strategy (NSS), first published in 2014. The NSS is an evolving evidence-based policy document co-authored by a group of leading researchers, policy experts, and stakeholder organizations from across Canada.

The NSS outlines four pillars that guide the NIA's work to advance knowledge and inform policies through evidence-based research around ageing in Canada: Independent, Productive and Engaged Citizens; Healthy and Active Lives; Care Closer to Home; and Support for Caregivers.

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Executive Summary: Reasons for Concern

Canada is undergoing an unprecedent demographic shift. For the first time in our history, there are more people over the age of 65 than there are children under the age of 15. This fact is not mere trivia. An ageing population demands different considerations than does a younger population. This is true for our retirement income system (RIS), for governments, for the retirement and pension sector, and for Canadians themselves. Declining fertility rates and improvements to individual longevity suggest that these realities will be with us in the decades ahead.

Thus, the traditional life course milestones of getting an education, finding meaningful employment (with a high certainty of belonging to workplace pension plan) and counting on a well-deserved retirement are fading away. Personal financial uncertainty now prevails for many Canadians.[1] Forty years ago, almost half of working Canadians had some form of pension coverage. Today, only about one-third do. With fewer pensions, putting savings towards retirement increasingly competes with the personal financial goals of owning a home, reducing household debt, and raising a family.

When Canada's public pension programs were designed over 50 years ago, the average age of the population was under 30. Today we are, on average, 10 years older. At the same time, we are living longer, with centenarians representing the fastest growing cohort in Canada. Projections show that the cost of public care in nursing homes and private homes will more than triple between now and 2050, ultimately reaching $71 billion annually.[2] Public system sustainability and personal affordability will be twin challenges posed by and to an ageing population.

This changing set of circumstances is already affecting Canadians, who increasingly report fears about inadequate savings for retirement, outliving their money,[3] and affording health services that are not universally guaranteed (such as long-term care).[4] At the other end of the life-course, young Canadians are experiencing stagnant wages, fewer employers that offer any kind of retirement or pension plan, and an employment landscape increasingly reliant on "gigs" rather than full-time, salaried positions. Saving for retirement now seems unachievable, buried layers

under pressing concerns of escalating costs for housing, education, and childcare. In a recent public survey, 80% of Canadians said that they would rather have a pension than a higher salary.[5]

Investment return prospects have also dimmed. While there were a few memorable bumps on the post-World War II investment road, financial markets have generally provided generous returns over the last 70 years. Today, we face historically low bond yields and uncertain equity returns in the face of climate change and political turbulence across the world. This means retirement savers may not get as much help from favorable financial markets as they did in the post-World War II decades.

This is the situation Canada finds itself in now. We have an older population with different sets of needs and priorities than was the case after World War II. We're living longer, spending more time in older age without working income, and with diminished investment return prospects. Yet, our retirement income system in broad strokes still functions on many of the assumptions – good and bad – that we had decades ago. This is not meant to ignore the many earnest and effective changes introduced in recent years, such as an enhanced Canada/Quebec Pension Plan (CPP/QPP), the relatively new and popular Tax-Free Savings Accounts (TFSA) and Exchange Traded Funds (ETF), and the

rebounding sustainability of many major public-sector pension plans.

Despite these positive measures, however, more needs to be done. The goal of this paper is to provide a platform for discussion on Canada's RIS, from a 'bird's eye view' as well as on its constituent parts. We start by placing Canada in an international context and acknowledging some recent findings by Canadian researchers. We then highlight the state of ageing, retirement readiness, and sustainability issues in Canada. In the second half of the paper, we move to a discussion on improving Canada's RIS, identifying remaining challenges and possible next steps. The paper ends with a series of questions on the priorities of these remaining challenges and how they might best be addressed.

1. The Big Picture

To get a better understanding of the big picture of Canada's retirement income system (RIS), it is useful to start with an outside and comparative perspective. The Melbourne-Mercer Global Pension Index (MMGPI) benchmarks and ranks retirement income systems across the world based on a standard methodology (see table 1).[6] MMGPI assigns country ratings based on the assessed adequacy, sustainability, and integrity of its RIS on a scale of 0-100.[7]

The MMGPI awarded Canada's RIS a 69 rating and 'B' ranking in 2019, for having "a sound structure with many good features, but with a number of areas for improvement."[8] The 69 rating is an increase of 1 percentage point over the previous year, accounting for the recent enhancements to the Canada Pension Plan (CPP). The total 2019 rating range for all 37 countries assessed was 81-39. Below the two 'A' ratings for Netherlands and Denmark, Canada's 69 rating ranked 9th, one of 11 'B' ratings out of 37 countries (see table 2).[9]

The common characteristic for the countries with higher ratings than Canada's was compulsory participation in Pillar 2 occupational pension plans.

It identified the lack of occupational pension plan coverage in Canada's private sector as the first priority among three improvement opportunities (see Appendix for an overview of Canada's RIS).

How could Canada increase its RIS quality rating? The MMGPI has three recommendations:[10]

1. **Increase pension coverage through the development of attractive products for workers without workplace pension plans**
2. **Increase savings rates for middle income earners**
3. **Increase labour force participation rates at older ages as life expectancy increases**

We agree broadly with MMGPI's conclusion and explain why in this paper. Before we do that, however, we acknowledge two recent RIS studies by Canadian researchers Malcolm Hamilton and Bob Baldwin, which also help frame the contents of this paper:

1. Do Canadians save too little?:
Hamilton believes Canada's RIS is generally in good shape. However, he questions the usefulness of the way the 'national savings rate' is typically defined and measured. Properly measured in a retirement savings context, he estimates an average savings rate of 14% in Canada. Averages can be deceiving. The savings rates for members of workplace pension plans (especially defined benefit (DB) plans in the public sector) are considerably higher than that, while they are considerably lower for most workers without workplace pension plans.[11]

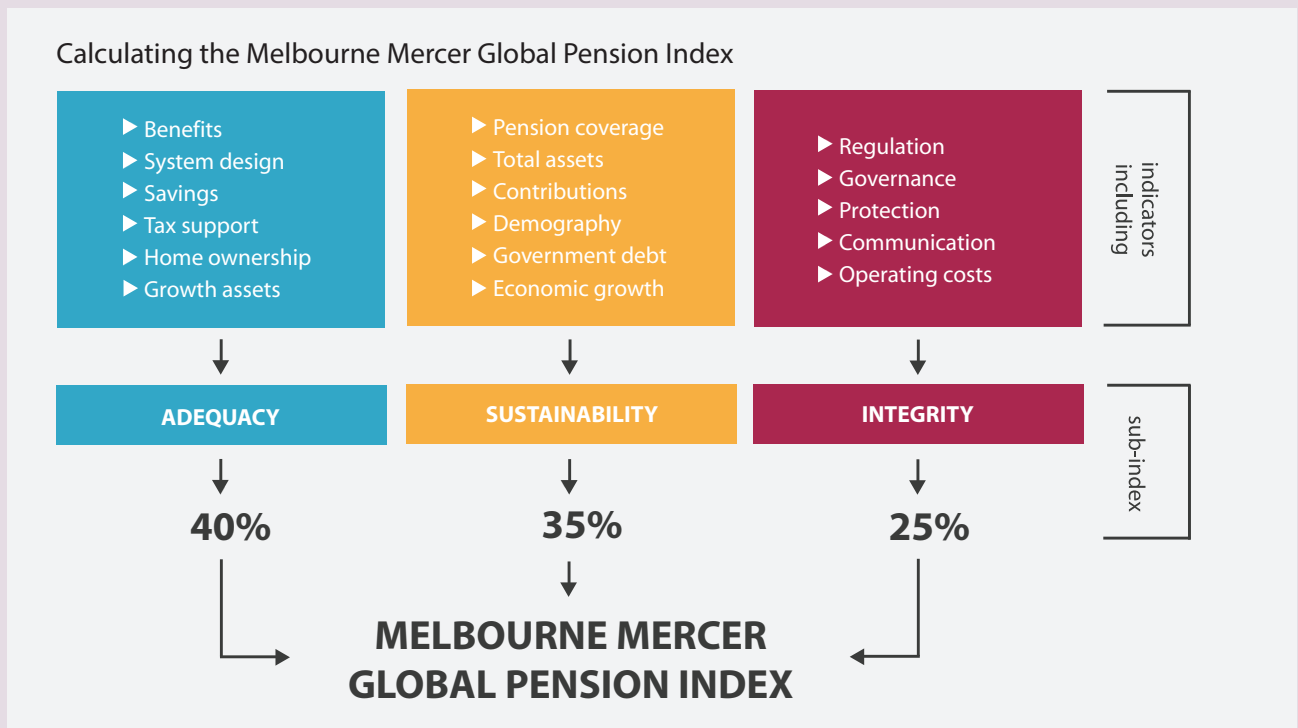**2. Canada's retirement income system - a reform agenda:**
By the standards of alleviating poverty and post-work income replacement, Baldwin believes Canada's RIS is generally in good shape, but there is room for improvement. The system is too complex. A key opportunity for improvement is increasing private sector workplace pension coverage with pension designs that are 'fit for purpose' in the 21st Century.[12]

In this paper we note that there are other opportunities for RIS improvement in Canada as well. More discussion needs to take place on issues such as retirement age and financial support for low-income workers. A related issue is the lack of integrated political decision-making and regulation in the RIS area. For example, regulatory efforts to protect individual Canadians from 'deferred sales charges' on mutual funds is progressing across Canada, with the exception of Ontario.

Table 1: About the Melbourne Mercer Global Pension Index (MMGPI)

The MMGPI covers 37 retirement income systems around the world, which represents more than 60% of the world's population. MMGPI benchmarks each retirement income system using more than 40 indicators.

Calculating the Melbourne Mercer Global Pension Index

► Benefits ► System design ► Savings ► Tax support ► Home ownership ► Growth assets	► Pension coverage ► Total assets ► Contributions ► Demography ► Government debt ► Economic growth	► Regulation ► Governance ► Protection ► Communication ► Operating costs
↓	↓	↓
ADEQUACY	**SUSTAINABILITY**	**INTEGRITY**
↓	↓	↓
40%	**35%**	**25%**

indicators including

sub-index

MELBOURNE MERCER GLOBAL PENSION INDEX

The overall index value for each system represents the weighted average of the three sub-indices.

The weightings used are 40% for the adequacy sub-index, 35% for the sustainability sub-index and 25% for the integrity sub-index which have remained unchanged since the first Index in 2009.

The different weightings are used to reflect the primary importance of the adequacy sub-index which represents the benefits that are currently being provided together with some important system design features. The sustainability sub-index has a focus on the future and measures various indicators which will influence the likelihood that the current system will be able to provide benefits into the future. The integrity sub-index includes several items that influence the overall governance and operations of the system which affects the level of confidence that the citizens of each country have in their system.

This study shows there is great diversity between the systems around the world with scores ranging from 39.4 for Thailand to 81.0 for the Netherlands.

Source: Melbourne Mercer Global Pension Index 2019

Table 2: Summary of 2019 MMGPI Country Rankings

Grade	Index Value	Countries		Description
A	>80	Denmark Netherlands		A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75-80	Australia		A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
B	65-75	Canada Chile Finland Germany Ireland	New Zealand Norway Singapore Sweden Switzerland	
C+	60-65	France Hong Kong SAR Malaysia	UK USA	A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned.
C	50-60	Austria Brazil Colombia Indonesia Italy	Peru Poland Saudi Arabia South Africa Spain	
D	35-50	Argentina China India Japan Korea	Mexico Philippines Thailand Turkey	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed. Without these improvements, its efficacy and sustainability are in doubt.
E	<35	Nil		A poor system that may be in the early stages of development or non-existent.

Source: Melbourne Mercer Global Pension Index 2019

2. Ageing, Retirement Readiness, and Public System Sustainability in Canada

Canada's demographic make-up has changed considerably over recent decades. Our population is older and living longer than ever before. At the same time, Canadians face increasing challenges in saving for their own retirement, fewer Canadians belong to pension plans, and public programs, like Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), are supporting a growing number of older Canadians for a longer period of time. As figure 1 below shows, the number of Canadian children will remain roughly constant to 2038, as the number of seniors is projected to grow from about 6 million today to more than 10 million by 2038.

Figure 1: Population aged 0 to 14 years and 65 years and older, 1998 to 2018 (estimates) and 2019 to 2038 (projections), Canada

number: (millions)
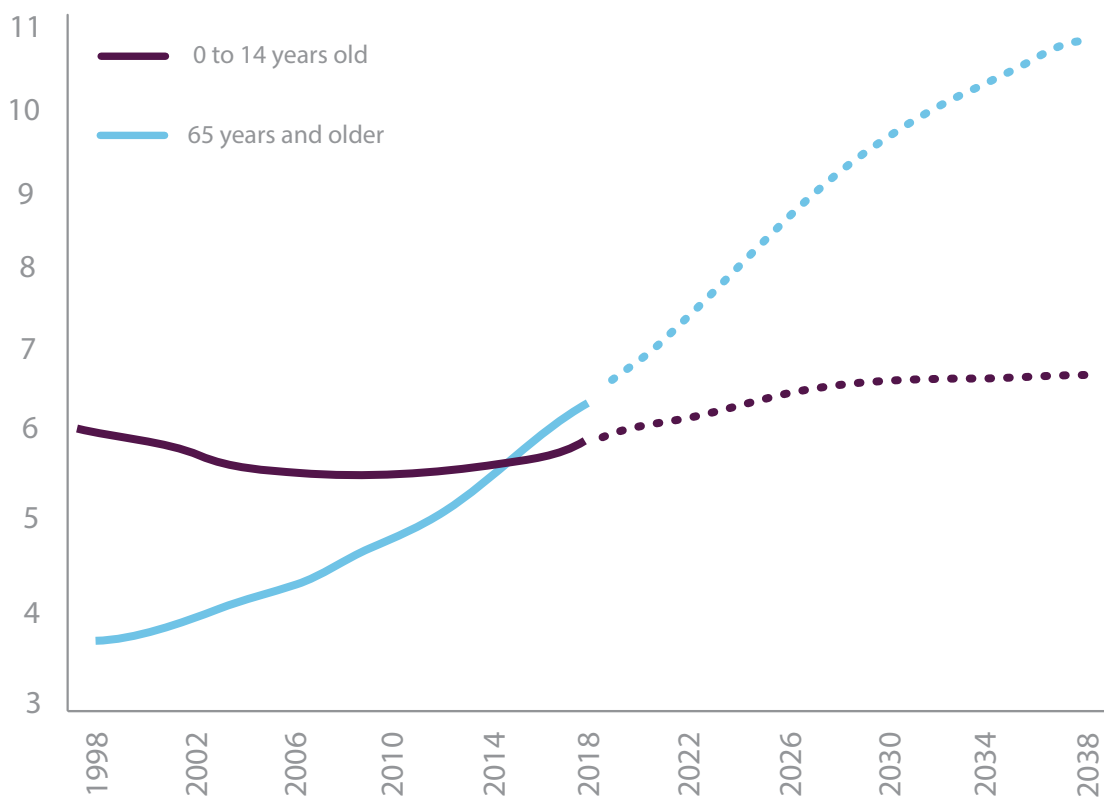
Source: Statistics Canada

The number of seniors in Canada is growing in absolute terms and as a proportion of the population:

- In 1986, there were twice as many children under the age of 15 as there were adults over the age of 65. By 2018, there were more over-65 adults than under-15 children.[13]

- In 2016, adults aged 85 and older made up 2.2% of the population (770,000 people). By 2031, that proportion is projected to rise to 4% of the population (1.3 million people), and by 2051 to 5.7% of the population (2.7 million people).[14]

- The ageing of Canada's population is likely to continue for the foreseeable future, with 1971 being the last year in which Canada's fertility rate was at the 2.1 children per woman required for population replacement. Today, that rate is 1.61.[15] Immigration of younger people may help, but future demographics in

Canada are likely to remain older than was the case in the middle of the twentieth century.

At the same time that Canada is ageing, retirement readiness remains elusive for a large number of Canadians. Almost two-thirds of Canadians do not belong to a workplace pension plan:

- 6.2 million working Canadians belong to a workplace pension plan, out of a total workforce of approximately 19 million Canadians.[16] Approximately 65% of employed Canadians, therefore, do not belong to a employer-based registered pension plan.

- Between 1977 and 2011, pension coverage of the employed population declined considerably. Among men, coverage declined from 52% to 37%, while it increased modestly for women, from 36% to 40% (see fig 2).

Figure 2: Percentage of employees with a registered pension plan (RPP) through their job, by gender, 1977 to 2011
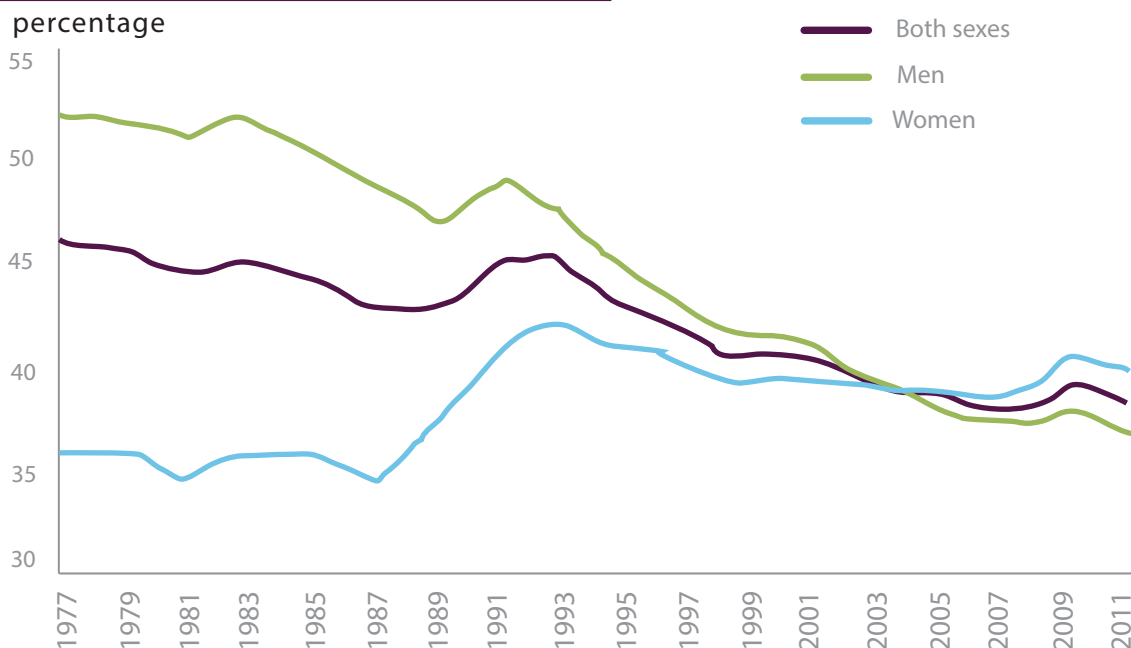
Source: Statistics Canada, Pension Plans in Canada and Labour Force Survey, 1977 to 2011.

Canadians without workplace pension plans have inadequate retirement savings:

• Median family savings for Canadians entering retirement without a workplace pension is only $3,000.[17]

• Median annual retirement income for families without a workplace pension was $31,400 in 2011, compared to $55,400 for those with a workplace pension, including the OAS/GIS and the CPP/QPP public pension programs.[18]

• Canadians' primary residences form a substantial basis of personal net worth. From 1999 to 2016, growth in the prices of personal real estate accounted for 39% of the real growth in family-owned assets. Median debt levels of mortgages, however, increased over the same time frame from $95,400 to $190,000 (2016 constant dollars). Likewise, the ratio of debt to after-tax family income increased from 94% to 165%.[19] As such, releasing the value of primary residences may not solve the retirement income challenges Canadians face, even if Canadians were so inclined to try.

Finally, there is the question of public health care and OAS/GIS sustainability in the decades ahead as Canada's population ages:

• The 27th CPP Actuarial Report notes that in 1966 the life expectancies of Canadian men and women at age 65 were 13.6 years and 16.9 years respectively. In 2016, they had increased to 18.9 years and 21.8 years. Since 1966, life expectancy at age 65 had therefore increased by about 5 years for both men and women.[20]

• The combination of increasing life expectancies and increasing proportions of the population over the age of 65 will exert increasing pressures on our public health care and social support systems. For example, 5.8 million Canadians are OAS recipients today, with 1.9 million also receiving the GIS. These numbers are projected to increase to 9.3 million and 3.1 million respectively in 2030.[21]

• As a proportion of Canada's Gross Domestic Product (GDP), OAS expenditures in 2019 were 2.6% of GDP. At the expected peak of population ageing by 2031, it will grow to 3.2% of GDP. Projections show that it will take until 2060 to return to the ratio we see today.[22]

• The pressures of an ageing population will likely also affect expenditure on primary health care as well as long-term care services. NIA projections show that costs for home and nursing home care will grow from $22 billion today, to more than $70 billion by 2050.[23]

The ageing of the population, lack of pension coverage, and low savings rates may well affect the future sustainability of Canada's public systems for health care and retirement income support. Next, we show how Canada is already starting to tackle these issues.

3. Improving Canada's Retirement Income System

Canada has already begun to act on the three MMGPI recommendations and the Hamilton and Baldwin observations summarized above:

1.Increasing CPP/QPP pensions:
Due to the Federal-Provincial agreement reached in 2016, the recent increases to CPP/QPP will cover all Canadian workers over the course of the coming decades, funded by rising contribution rates that started in 2019. This will slowly raise income replacement for Canadian workers from Pillar 1 plans.

2. New Pillar 2 initiatives:
Some existing occupational pension plans in the public sector have begun to offer their pension management infrastructure and balance sheets as a means for private sector employers to continue to offer their employees cost-effective collective pension plans without underwriting future balance sheet risks.[24] At the same time there are new initiatives targeting specific segments of Canada's labour market. New pension delivery organizations are beginning to offer collective low-cost, multi-employer retirement savings programs to employer/employee groups in specific segments of Canada's labour market sector.[25]

3. Canadians working longer:
1 in 5 Canadian seniors – over 1 million individuals – are working past age 65, which is the highest proportion of seniors in the workforce since 1981.[26] Additionally, higher education is correlated with working beyond age 65. Seniors with bachelor degrees or higher are more likely to work for longer. However, Canada still lacks a consistent retirement age policy, although there are incentives for delaying receipt of the OAS and CPP/QPP pension to age 71.[27]

Two other positive developments are worth noting:

1. Defined benefit plan design evolution:
There is an evolution occurring in collective public sector pension plans at the provincial and local levels from one-sided, fully-guaranteed DB plans to more sustainable versions where risks are shared between tax/rate payers, employers, active workers, and retirees. Studies published by the C.D. Howe Institute and the Fraser Institute elaborate on this development and its implications for regulation and financial reporting.[28] Related to sustainability, recent changes to the federal public sector pension plans will increase contributions amounts for plan

members who are eligible to receive an unreduced pension at age 60, rather than at age 65, to reflect the five years fewer they will contribute to the plan.[29]

2. Pension organization evolution:
The 'Canada Model' of pension organization was first implemented in the early 1990s through the reorganization of the Ontario Teachers' Pension Plan. Other large Canadian pension organizations have since adopted the same model. Through reconfiguring mission, governance, and organizational structure, Canada Model pension organizations deliver measurably more 'value-for-money' in their investment management and benefit administration functions than alternative structures. A key Model element has been emphasizing scale and insourcing of the investment functions, thus achieving superior performance at lower costs.[30] The Model has become the standard that pension organizations in other countries aspire to. To date, the Model is largely operating in federal/provincial/municipal-level government and public sector contexts.

4. Remaining Challenges

Despite these positive developments, we identify four major challenges remaining in Canada's RIS.

The four remaining challenge are:

1. Continued lack of Pillar 2 pension coverage and efficiency:
Out of a total of 19 million working Canadians, close to 12 million are still not members of a Pillar 2 registered pension plan, placing them at a considerable disadvantage to the Canadians who do have such a plan. Research suggests that many of the individual Pillar 3 retirement savings pots of these Canadians will underperform those managed through Pillar 2 collective pension plans over 40-60 year accumulation/decumulation periods.[31] A key cause is conflicted implementation infrastructures relative to fiduciary Pillar 2 alternatives.[32]

There are also proposals on ways that Pillar 2 savings vehicles could be improved upon to deliver better outcomes to Canadians, especially with regard to longevity protection (see point 3 below). For example, the CD Howe Institute released a report proposing that the federal government allow the use of

Group TFSAs in the purchase of life annuities, which are currently restricted to registered products. The report suggests that such innovations would further encourage Canadians to save productively and protect against outliving one's money.[33]

2. Pillar 3 misfit between individual Canadians' investment abilities and responsibilities:
There is a misfit between the investment responsibilities Canadians are increasingly expected to take on and their ability to do so effectively. While regulatory efforts to protect individual Canadians saving for their own Pillar 3 supplemental pensions are ongoing, more work needs to be done. For example, a recent academic study found that in addition to having conflicts of interest, many financial advisors also lack the skill and temperament to deliver the services for which clients pay.[34] Of course, this is not the case across the entire industry, but regulatory efforts could help improve Canadians' trust in the financial advice they receive. More demanding fiduciary duty and accreditation regimes should be required.

3. Barriers to acquiring longevity insurance:

There continue to be material legislative and regulatory barriers to individual Canadian retirement savers acquiring longevity risk insurance (e.g., against the risk of outliving their money) through:

- Being able to defer receiving their OAS/CPP/QPP pensions above the current age-71 ceiling;

- Through the provision of collective variable longevity risk-pooling arrangements;

- Through the provision of long-dated deferred annuity contracts by insurance companies. A broad coalition of RIS industry participants has been addressing this shortcoming by outlining the problem and how it can be solved. To its credit, the federal government committed to removing these barriers in its March 2019 budget, which proposed permitting purchasing deferred annuities in registered plans, providing flexibility in managing retirement savings (specifically, Advanced Life Deferred Annuities and Variable Life Payment Annuities).[35] Further efforts will be required to legally activate these changes. Also, ongoing education efforts will be required to help Canadians who are not members of DB plans to understand the value of longevity insurance, and the best structure in which to acquire it.

4. Lack of integrated political decision-making, regulation, and RIS research. Recent examples include:

Official retirement age:
The current federal government reversed the prior government's decision to gradually raise the official retirement age from 65 to 67. Arguments can be made on both sides of this issue and how best to proceed. A process is required to address this issue in the context of real demographic challenges facing Canadians in the decades ahead.

Support for low-income workers:
Various proposals have been made to ensure that low-income workers are not disadvantaged by being encouraged or required to save for retirement only to see their income-tested GIS reduced in retirement.[36] In 2019, the NIA published *Filling the Cracks in Pension Coverage: Introducing Workplace Tax-Free Pension Plans*, which proposed the introduction of workplace Tax-Free Pension Plans (TFPPs) as an option for improving pension plan coverage in Canada, particularly for those workers who are at risk of becoming financially vulnerable in retirement.[37]

Pension policy and research integration:
There is no regular protocol for updating federal tax policy as it's related to pensions and retirement savings.[38] There is also no integrated decision-making process for deciding and communicating the CPP/QPP funding and investment policy. There is also federal/provincial/territorial regulatory fragmentation within and between the pension and insurance sectors, and between individual and group investment regulations. Similarly, there is significant fragmentation at the academic, professional, industry levels in RIS research, thought-leadership, and action-leadership. As a consequence, Canada has suffered from a slow, halting approach to innovation in its RIS, an issue that the NIA and this paper aim to address.

5. How Should Canada Address its Remaining Challenges?

Where should Canada go from here? Without an integrated approach to identifying its remaining pension challenges, proposing solutions, and then proactively devising strategies to see them through to implementation, the path forward is unclear. Is there a better way? Looking outside, Australia, Finland, and the United States offer three organizational structures worth considering to improve integrated thought leadership and decision-making on Canada's RIS:

1. **Australia's Productivity Commission:**
    The Commission is a standing independent research and advisory arm of its federal government on a range of economic, social, and environmental issues affecting the welfare of Australians.[39] It has placed the Australian RIS under a microscope over the course of the last two years and has just issued a draft report making a series of recommendations on how to improve the Australian RIS. These recommendations are now being debated at both the political and technical levels, with a material likelihood that most will find their way into Australian pension legislation, regulation, and industry practices.[40]

2. **Finland's Centre for Pensions:**
    The Centre is a statutory co-operative created by Finland's national government. Its mandate is to conduct research and provide advice to the government, the pension regulator, employers, and pension providers on how to enhance the sustainability, reliability, fairness, and efficiency of Finland's RIS.[41] It conducts research and publishes regular reports on these topics. On top of the comprehensive research and mandate, the centre is also responsible for helping to maintain and to generate public awareness and education on pensions, further entrenching the importance of retirement issue across Finnish society.

3. **Boston College's Centre for Retirement Research (CRR):**
    CRR is not a government body, but is recognized in the United States as a leading centre on retirement studies. The core mandate of the centre is to study issues that affect retirement income, but in so doing it comprehensively examines related issues, such as the Social Security system, health and long-term care, older workers and more.[42] It also produces the National Retirement Risk

Index, which measures the percentage of American working-age households at risk of experiencing a decline in standard of living in retirement.[43] Canada may likewise benefit from an approach that seeks to understand retirement readiness of working-age households across multiple variables, including health and labour considerations and factoring in recent CPP changes.

These are three possible 'better way' models for Canada to consider in a longer-term timeframe.

Meanwhile, we should proceed with more immediate action to raise the level of innovation in Canada's RIS in the coming years:

1. **Thought Leadership:**
   Canada is not short on talented people thinking about and researching RIS questions. Through the NIA we intend to create more frequent and effective opportunities for these people to interact with each other and to reach consensus on how best to address Canada's remaining RIS challenges. This paper is a part of that effort.

2. **Action Leadership:**
   Good ideas that gain broad acceptance should be put into practice. This 'translation' process has not been working as well as it could in Canada. However, last year the NIA created a 'coalition of the willing' on changing

legislation and regulation to facilitate the cost-effective availability of longevity insurance to Canadians. It involved six different organizations representing multiple constituencies: pensioners, pension organizations, insurance organizations, the actuarial profession, and academia. This was probably the broadest RIS coalition ever assembled in Canada. We anticipate new coalitions will follow.

Canada's retirement income system has many good features but also has a number of remaining challenges. The NIA is prepared to do its part to address these remaining challenges in the years ahead.

6. Setting Priorities: Discussion Questions

A key goal of this paper is to help the NIA validate assumptions on the state of Canada's RIS, reach consensus on how it can be improved, and from there to develop a core set of priorities for research and action.

To that end, the following questions are designed to garner informed perspectives on our mapping of the larger challenges and to help set realistic priorities for improving Canada's RIS.

Discussion Questions

1. The MMPGI recommends three priority areas for improvement in Canada's RIS:

- Increase pension coverage through the development of attractive products for workers without occupational pension plans
- Increase savings rates for middle income earners
- Increase labour force participation rates at older ages as life expectancy increases

Q: Do you agree with the MMPGI priorities for improving RIS in Canada?
Q: How would you rank these priorities in order of importance?

2. The identified Pillar 2 coverage problem suggests a policy of mandating employers to offer their employees a qualifying plan - possibly with auto-enrolment, possibly with an employee opt-out option, and possibly with a required minimum employer contribution.

Q: Do you agree that more consideration should be given to mandatory and/or auto-enrolment plans and features?
Q: What more can be done to encourage employers to offer retirement plans voluntarily?
Q: What measures can be taken or further explored to support existing pensions plans?

3. A number of countries have increased the official age of retirement, given population ageing, longevity gains, and sustainability concerns.

Q: Should Canada consider increasing the age of retirement?

Q: Can the age of retirement be increased in a way that is fair intergenerationally?

Q: What more can be done to incentivize Canadians to voluntarily delay retirement and/or work longer?

4. This discussion paper identifies a number of additional challenges to further improving Canada's RIS:

- Effective programs to raise financial literacy and financial wellness among Canadians
- Increasing savings rates and savings efficiencies for lower- and middle-income workers
- Raising Pillar 2 pension coverage, including for the self-employed
- Changing the normal age of retirement and/or creating new incentives for working at older ages
- Developing more integrated thought leadership and decision making across political, regulatory, retirement industry, and research spheres
- Better regulatory protections for Pillar 3 retirement savers
- Improving longevity insurance and decumulation options
- Improving public accounts transparency regarding public pension commitments
- Protecting existing RPPs

Q: Which of these issues would you prioritise for public attention, research, and/or action?

Q: Are they any challenges and/or solutions that were omitted in this discussion paper?

Next Steps:

Going forward, the NIA will hold in-person and online consultations with a broad range of stakeholders to help set priorities for future research and action on these and related issues concerning the future of Canada's retirement income system.

Appendix: Overview of The Structure of Canada's Retirement Income System

Canada's RIS structure roughly fits the World Bank's 3-pillar model of government programs, employment-based retirement and pension plans, and personal retirement savings.

Pillar 1: Public programs and plans administered by the government

Old Age Security (OAS):

The universal OAS program provides an inflation-indexed base pension to all Canadians aged 65 and over. The maximum monthly benefit is approximately $613, for a maximum annual benefit of about $7,300, varying based on income levels and marital status.[44] At the high end of the income spectrum, the OAS pension is gradually clawed back starting at about $76,000 income level and reaching 100% claw back at about $123,000.[45] The OAS program is funded out of general tax revenue, meaning that Canadians do not pay into it directly.

Guaranteed Income Supplement (GIS):

The GIS provides supplementary monthly income to OAS recipients who are low income, which for single seniors is defined as having annual income below about $18,000.[46] The GIS provides a single senior a maximum monthly benefit of $916, for a maximum annual benefit of $10,992. Amounts vary based on income levels and marital status.[47]

Canada/Quebec Pension Plans (CPP/QPP):

The CPP/QPP provide nearly all working Canadians a partial earnings replacement upon retirement as early as age 60. They are workplace-based pension arrangements requiring compulsory participation by employers and working Canadians. The original target income replacement rate was 25% of average earnings up to a maximum earnings level (about $55,000 today). Originally a pay-go system, it was moved to a partially pre-funded basis in the 1990s, permitting a stabilized contribution rate of 9.9% of pay, split 50-50 between employers and employees.[48]

In 2016, recognizing that the majority of private sector workers were not members of employer-sponsored pension plans, Canada's federal and provincial governments agreed to increase the target CPP/QPP benefit to 33.33% of average earnings, and to increase the ceiling on maximum earnings covered by 14% (i.e., from $55,000 to approximately $65,000 in today's dollars at full implementation). By 2023, total employer/employee contributions will increase to 11.9%, split 50-50 between employers and employees. These enhancements are to be fully prefunded with the additional contributions required phased in over a

number of years, starting in 2019. These enhancements will eventually raise the maximum CPP/QPP benefit from $13,600 today to $20,400 in current dollars. The full increase in CPP/QPP will be achieved by 2065.[49] Overall, the enhancements will on average increase CPP benefits by 44% across Canadian seniors.[50]

Pillar 2: Collective workplace-based programs including Registered Pension Plans (RPPs), Group Registered Retirement Savings Plans (GRRSPs), and Deferred Profit-Sharing Plans (DPSPs)

RPPs:

Registered pension plans are established by employers or unions, registered under federal or provincial regulators in accordance with their Pension Benefits Acts.[51] The two main types of employer-established plans are defined benefit (DB) and defined contribution (DC). In a DB plan, ultimate retirement benefits are defined by a formula that typically includes years of service, earnings, etc. Benefits within a DC plan, by contrast, are defined by the amount of contributions that are made and the investment returns that are generated over time.[52] Out of a total of approximately 19 million employed Canadians in 2019, about one-third belonged to an RPP, for a total RPP membership of 6.2 million Canadians.[53] Of the 6.2 million total members of RPPs, 3.2 million belong to public sector plans and

3 million to private sector plans. Out of the 6.2 million total RPP members, about 4.1 million belong to a DB plan, 1.2 million belong to a DC plan. About 1 million people belong to RPP plans other than DB or DC, namely hybrid plans, composite, and combination plans.[54] While the number of people who are members of and RPP increased by 62,100 in 2017, the pension coverage rate declined, from 37.5% in 2016 to 37.1% in 2017.

GRRSPs/DPSPs:

Employers also play a role in creating retirement savings arrangement for their workers. Two main types are Group RRSPs and Deferred Profit-Sharing Plans (DPSPs). Group RRSPs are similar to individual RRSPS, but administered by an employer for a group of employees.[55] Employers select a financial services provider to manage the group RRSP, and may also match employee contributions into their RRSPs up to some maximum amount. DPSPs are arrangements that allow employees to share in employer profits.[56] Approximately 1.5 million workers are members of these group arrangements.[57]

Pillar 3: Personal retirement savings vehicles, including Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs)

RRSPs/TFSAs:

Canadians can also save for retirement on their own through RRSPs or TFSAs. RRSPs are personal retirement savings accounts offered by financial institutions and facilitated by the Income Tax Act.[58] Contributions to RRSPs are tax deferable until withdrawal. They must be converted into Registered Retirement Income Funds (RRIFs) by age 71. RRIF holders must withdraw at least a mandated minimum annual amount from their account as taxable pension income.[59] TFSAs are also personal savings accounts, but rather than allow tax on contributions to be deferred until withdrawal, contributions and investment returns are permitted to accumulate tax-free. Both accounts have annual and lifetime contribution limits. About 14 million Canadians had TFSAs as of the 2017 contribution year.[60] However, only 8.1 million contributed to their TFSA in that year. And only 1.4 million maxed out their $5,500 contribution limit for 2017.[61] For the same year, 5.9 million Canadians contributed to their RRSP accounts. Median RRSP contributions for that same year were $3,000.[62]

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