

Intelligence MEMOS



From: Peter Hicks
To: Canada's Pension Regulators
Date: July 16, 2019
Re: **LET'S GET GOING ON PENSION REFORM**

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. In a recent [paper](#), I review the changes facing Canada's pension system, and offer a pathway to a reform agenda.

The last several reforms to senior's 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 delay public pension payments to an older age.

Despite the 'grey tsunami' warnings, Canada has not changed (in a lasting way) the age at which public pension benefits can start for more than half a century. But relative to other nations, Canada is in a fortunate position on pension reform for two reasons. First, our retirement income system, with a mix of public pensions, workplace pensions and private savings, already offers much choice and flexibility.

Secondly, older adults in Canada are already working longer. In the last 20 years, the employment rates of older workers have increased substantially. 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 that option. At the same time, Canadians follow many different pathways 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 may still be working and earning money well after they start collecting public pension benefits. Meanwhile, older workers who cannot work any longer – because of illness, disability, job requirements, or the need to care for a spouse – will continue getting lower 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.

The major change would be to raise the current anchor point of age 65 in public pension programs to keep pace with changes in age at "retirement" among older workers. I discussed this in a C.D. Howe Institute [paper](#).

Moving the start of CPP and OAS eligibility back by three years to 68, or whatever age is designated as the new retirement norm, would mean that public pensions would not have to pay out as many years of benefits and could instead focus on paying them when and where they are really needed. In turn, this would lead to major cost savings that could be used to increase the dollar value of the benefits, or redistributed towards other forms of income support for the poorest and most affected individuals.

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.

A package of reforms could also be designed to target those who are most hurt when the official retirement age rises. There are many ways to imagine a package of income support reforms to protect the most vulnerable and improve well-being for seniors without increasing the overall cost of the 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 brings complexity.

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.

That data should feed the design of different options that can be put to the Canadian public to let it understand how different reforms could work in practice, with different trade-offs in costs and benefits.

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