

Intelligence MEMOS



From: Antoine Genest-Grégoire, Luc Godbout, René Beaudry, and Bernard Morency
To: The Hon. Bill Morneau, Minister of Finance
Date: July 4, 2018
Re: Deferring Receipt of Public Pension Benefits: A Tool for Flexibility

Retirement savers would benefit from greater flexibility and security with a longer Canada and Québec Pension Plan (C/QPP) deferral period. In our new C.D. Howe Institute [report](#) we show that deferring receipt of public pension benefits makes retirement planning cheaper for Canadians who use capital accumulation plans such as RRSPs and defined-contribution plans.

We propose that governments push back the deferral period for public pension benefits to age 75 from 70 as a first step in broader reforms to the C/QPP regimes.

The recently announced modifications to the CPP and QPP will make Canadian retirees better protected against the risk of seeing their standard of living reduced, but they will only take full effect in 40 years. Extending the C/QPP and Old Age Security deferral periods is an immediate fix, right now, for sustainable public pension provision. Our modelling shows this step could help retirees worried about running out of savings or not hitting their retirement income goals. Delaying public pension take-up would allow middle- and upper-middle income Canadians greater retirement planning flexibility, to the extent they have private savings to rely on in the meantime.

Under the current Canadian public pension system, C/QPP benefits can start at any time between age 60 and 70 and Old Age Security benefits at any time between 65 and 70. C/QPP benefits are reduced if they start before age 65, and all public benefits are enhanced if commencement is after age 65. There is no requirement to cease work or employment to start these benefits. The proportion of retirement needs covered by public programs like C/QPP and Old Age Security increases considerably when benefits are taken later. The deferrals enhance the annual amounts of C/QPP and OAS received, which in turn lowers the amount of private savings required.

Pension deferral is both an effective means of reducing the savings required overall and of reducing risk. Pushing back the deferral period to age 75 would enhance retirement planning flexibility for many middle-income Canadians. As we wait for broader enhancements to be completed over the coming decades, this reform would be a good first step.

Many myths exist surrounding retirement planning, and it is a subject about which Canadians regularly say that they do not have all the knowledge required to make informed choices. It is thus important to point out that it would be useful to combine this increased flexibility with efforts to raise awareness and provide information. The simple fact of offering new opportunities does not greatly improve the situation of retirees if no one makes use of them. For example, the existing starting-age flexibility of the plans is not used a great deal by retirees, as evidenced by the fact that only about 3 percent of new QPP beneficiaries and 6 percent of new CPP beneficiaries are over 65 years old. The reform we propose, accompanied by education, would make the C/QPP and OAS respond better to seniors' needs, especially those in the middle-to-upper income range. We expect that greater benefit flexibility and better understanding of public pension benefits will lead to increased public support for and a stronger feeling of ownership of these plans, which in turn will contribute to the soundness and sustainability of these important components of the Canadian social safety net.

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