The Council on Aging of Ottawa | Le Conseil sur le vieillissement d'Ottawa

Retirement Income Policies: Reform Pressures over the Coming Decade

A Discussion Paper

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Experts Panel on Income Security

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About the companion paper: The Experts Panel asked two of its members to take the lead in drafting papers on possible reforms to the Retirement Income System. The current paper focusses on trends that may require policy attention. A companion paper, *Canada's Retirement Income System: A Reform Agenda*, prepared by Bob Baldwin, focuses on existing programs and ways in which they could be reformed.

PREFACE

The contents of this Discussion Paper reflect the views of the author and the consensus of the Council on Aging of Ottawa's Experts Panel on Income Security but does not necessarily reflect official views of the Council on Aging or its Board of Directors. The Council is pleased to distribute the Paper to inform and engage interested individuals and organizations including all levels of governments on these issues affecting Canadian seniors.

THE COUNCIL ON AGING OF OTTAWA

The Council on Aging (COA) serves as a leading community voice for seniors in both official languages. Our mission is to make Ottawa an increasingly age-friendly city by identifying and addressing issues that affect seniors in our community, as well as contributing to policies and programs that apply to all Canadians.

We achieve this through advocacy, education, research, and planning. The COA has been an active part of the Ottawa community for over 40 years, addressing issues important to seniors in health, housing, social isolation, transportation, elder abuse, income security, and making Ottawa more age-friendly.

For the COA, income security for present and future seniors is currently one of its several active concerns. To assist in this broad and complex area, in 2015 the Council convened an advisory panel of experts, chaired by COA Board member Russ Robinson, each of whom has contributed over many years to relevant policy research and development in Canada as well as abroad.

More information on our Experts Panel is found in the Annex. For The Council on Aging of Ottawa, please visit: www.coaottawa.ca where you can also subscribe to our newsletter. For more on the work of our Panel, in the main website go to *Committees*, then *Income Security*.

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Retirement income policies:
Reform pressures over the coming decade
A Discussion Paper

A. SUMMARY AND INTRODUCTION

Summary

The paper describes pressures that may require changes in the retirement income system over a 10-year time horizon and that, in turn, should result in preparatory policy analysis and development over the next several years, certainly within the mandate of the next federal government.

The most visible pressure will likely be a dramatically growing divergence between the age at which people retire and the age at which they are eligible for pension benefits. We foresee that the median retirement age could soon reach 68 or even higher, well above the normal ages of pension eligibility. This discrepancy holds potential for radically changing the context in which retirement income policies are assessed.

Other important, if more familiar, reform pressures include:

- The well-recognized but still largely unsolved retirement income issues faced by those without workplace pensions.
- The growing divergence between the living standards of seniors and those of working age.
- The retirement income situation of immigrants and refugees, of unattached people (particularly women) and of seniors in the oldest age groups.
- The impending pressures on the long-term care sector with growing wait lists for publicly funded services, an expanding but often unaffordable private pay sector of retirement residences, and decreasing capacity within families to provide care informally for frail elderly family members.

In the past, the possibility of increasing the age of pension eligibility has been seen in terms of a response to the fiscal and labour market pressures that result from population aging. This, we argue, is counterproductive. A more satisfactory, and less controversial, way of framing the policy agenda would be to develop packages of reform options that simultaneously addresses a number of the pressures identified above. These would be assessed in terms of their combined impacts at the level on individual well-being, as well as taking account of their fiscal and broader economic effects. It seems possible that cost neutral packages can be constructed that,

when taken as a whole, will result in significant gains in social and economic wellbeing with few, if any, losers.

Gains on multiple fronts are possible because, as a result of pension age reforms, there would be less time over life that many people would spend in receipt of pension benefits, with a consequent and significant reduction in the cost of providing those benefits. Those savings can be reallocated, directly or indirectly, in many different ways that would be explored in the various packages of reform options that would be constructed.

The proposed approach calls for consultation around costed alternative packages of reforms, including an assessment of the combined effects of each package and an identification of potential winners and losers. Wide consultation would be helpful in building consensus, which will be particularly important since implementation would involve many actors, including both orders of government. Wide consultation will also help address the skepticism that has arisen as a result of past reform proposals that would have resulted in many losers, particularly among low-income people, and will also address unwarranted concerns about intergenerational fairness.

A potential problem with the proposed approach is that it assumes a stronger capacity for analysis at the level of the retirement income system than that which currently exists. We currently do not even undertake routine, ongoing monitoring of the success of the system in meeting its fundamental objectives, such as maintaining pre-retirement living standards during retirement.

Most of the present analytic and assessment capacity is at the level of the separate programs and tax measures that comprise the system and largely ignores the hugely important interactions among those component elements. As well, despite encouraging recent signs of improvement, there remains a need to further strengthen the underlying data and analytic tools.

The paper suggests ways of building the needed system-wide capacity.

Introduction: scope and time frames

This paper examines social, economic and demographic pressures that might result in policy changes to the retirement income system taken as a whole. We only refer in passing to the specific components of that system.

The retirement income system is complex, consisting of many programs and tax arrangements of both orders of government, as well as private retirement savings arrangements and employment incentives. These interact with each other in often complex ways. There are often many alternative ways in which the programs in the system could be changed in response to new pressures, often with the risk of side-effects on other parts of the system that are not immediately visible but that need to be taken into account.

This paper draws attention to the also-important connections between retirement incomes and health and long-term care policies, especially the affordability of various long-term care services in so far as public funding currently covers only a fraction of needed care.

A companion paper, *Canada's Retirement Income System: A Reform Agenda*, examines the existing arrangements and explores practical alternatives for responding to changes at the level of specific programs and tax measures.

As is the case in many policy areas, changes to the retirement income system will often not have their effects felt for many years in the future. The time frames for pensions can be particularly long:

- Actuarial reviews of the Canada Pension Plan (CPP) and the Old Age Security (OAS) programs examine their financing implications decades in the future. For example, many tables in the CPP actuarial reports show financial data projected out to 2090, although this is admittedly a highly specialized application with a time frame that would appear ridiculous in other contexts.
- However, even practical reforms can take a long time to mature. The recent changes to the CPP will, for example, take some 40 years to fully come into effect.
- More generally, when pension reforms could significantly affect the retirement planning of individuals, it is usually desirable to introduce them gradually with plenty of advance notice – a process that means that it will be at least one or two decades and possibly longer before the effects of the change come into full force.

This need to take account of effects that will mainly occur in the future, often quite far in the future, poses a challenge. One can never predict the longer-term future with certainty. Longer-time frames are possible when dealing with some demographic variables, while projections of many economic variables, such as those related to the labour market, can be misleading if they attempt to project more than about five years ahead.

As well, most of our analytic tools do not take into account that people routinely adjust their behaviour over time in light of changing circumstances, including changes in program designs. While such design changes may not be frequent in any one of the programs and tax arrangements of both orders of government that comprise the retirement income system, major and unknowable changes to the system, taken as a whole, are certainly likely to occur within the next 5 to 10 years.

In summary, we examine external pressures that could result in calls for reform within the retirement income system in the coming decade.

The approach above may appear obvious, but it is worth underlining that this is not the usual way in which policy analysis in this area is undertaken in Canada. Most of policy analysis and reform takes place in a fragmented manner, at the level of the separate programs and tax arrangements that, in interactive combination, constitute Canada's retirement income system, such as the CPP/QPP, the OAS and GIS and provincial supplements to the GIS, tax support for private pensions and retirement savings, pension regulation, and other tax measures that impact on retirement income such as pension income splitting within families. Relatively little attention is paid to the complex and often large interactions that take place among these separate components and their combined effects.

Available data confirm that a new reform agenda is feasible, but actual program designs will require more research

The argument of the paper is based on the fact that older people are working later in life and that many or most will be working well past the age at which they are entitled to receive pension benefits. Ideally, we would like to know how many people will be working past the age of entitlement to pension benefits and their characteristics, including their income sources. There are many pathways from work to retirement. Are these pathways starting later in life? Are they becoming longer or shorter? Or more diverse? What role does actuarially adjusted provision for earlier or later receipt of pension benefits have in shaping these different pathways? Are there important differences in the work-retirement pathways across different population groups, especially at-risk groups? The existing literature does not provide clear answers to many of these questions.

The basic employment data by age clearly show that many people work past the age of eligibility for pension benefits and that the numbers of these is growing. By using imperfect data from several sources, it is possible to make a reasonable estimate of the extent to which the average retirement ages will exceed the age of entitlement to pension benefits. That clearly demonstrates there is a solid basis for recasting the reform agenda in a much more positive way. However, we will need more than high level averages in order to move to the next step of developing and assessing detailed reform packages. Research to answer the questions above should be a priority and, as will be discussed, is quite feasible.

Note on acronyms. The paper will avoid acronyms to the extent possible. However, the following will be used:

- CPP: Canada Pension Plan
- QPP: Québec Pension Plan
- OAS: Old Age Security program
- GIS: Guaranteed Income Supplement

B. The growing divergence between the ages of retirement and of pension eligibility

There is a long-standing ambiguity in the meaning of retirement. Historically, retirement was a clear discrete event when one received a gold watch and transitioned from full-time job to no paid work at all. However, this transition has become more complicated for many individuals as they formally retire from one job and take on some other paid employment some time later.

In some contexts retirement refers to the transition from paid work to non-market activities – including volunteer work – in later life. In other contexts it refers to the transition from reliance on earnings as the main source of income to reliance on pension income. There is considerable diversity in both these trajectories. For example,

- People may retire from their job but may subsequently decide to return to work.
- People may 'retire' from their career job but move into part-time or contractual work.
- People may leave work before or after they are in receipt of a public pension.
- The CPP and QPP allow for receipt of actuarially adjusted pensions between 60 and 70, with 65 as the norm, and based on recent legislative changes the OAS is now available on an actuarially adjusted basis between the ages of 65 and 70.
- People may start receiving different pensions at different ages, say the OAS at 65, the CPP deferred to age 68 and may start drawing down personal retirement savings at age 71.

These different usages cause much confusion in policy discussions. This paper will use the following definitions:

- ***Pension age:*** the age of eligibility for actuarially *unadjuste*d pension benefits. This is sometimes referred to as the *normal pension age* in the case of programs such as the CPP when people can receive adjusted benefits during a period of five years before and after the *normal* age of 65[1].
- ***Retirement age***: the age in the last year when the individual receives any paid labour market income;
- ***Retirement duration*** refers to the period of life spent after retirement age and without significant attachment to the labour market.
- ***Pension duration*** indicates the period of life spent in receipt of pension income.

The median age of many of the transitions to retirement and to receipt of pensions listed above was about the age 65. This section describes how these two ages – retirement age and pension

[1] In the case of the current OAS and associated GIS, the pension age is 65, although people can defer receipt of OAS for up to five years and received benefits that have been appropriately adjusted upward. There are exceptions in the cases of survivors and spousal allowances which can be received at age 60.

age – have been diverging, especially over the past two decades as people are working later, while pension ages have remained steady.

The section is organized as follows:

- Changes in the age when retirement starts on average.
- Changes in the average life expectancy at age 65 and the duration of retirement.
- Other factors that could affect the duration of retirement.

Age when retirement starts

Statistics Canada has, for many years, collected data on median and average retirement ages. The two measures show very similar levels and trends, but we will use the median. Either measure, if taking in isolation, presents some conceptual and measurement problems[2]. However, as will be seen below, other statistical series show similar trends and levels. It appears to be a useful tool for examining long term trends and projecting ahead.

Chart 1 shows that in the mid-1970s the median age of retirement for both men and women was 65. This means that, of those who identified themselves as retirees, half retired before the median age (e.g., 65.1 years in the case of men in 1976) and half retired later.

That is, in the mid-1970s retirement ages conformed well to the pension age expectations that were built into most pension arrangements[3]. The next 20 years saw a decline in retirement ages, followed by a quite sharp reversal in the most recent 20 year period, with median retirement ages returning to about age 64, with men retiring a little later than women.

Chart 2 shows that in the mid-1970s, age 65 was also the norm for retirement for both public and private sector employees, as well as for the self-employed. In the subsequent two decades, however, median retirement ages diverged quite sharply for different classes of workers, with the self-employed still retiring around age 65, but with a significant decline in retirement ages among employees, especially in the public sector. Since then trend has been upward in all groups, but with the differences among them remaining large.

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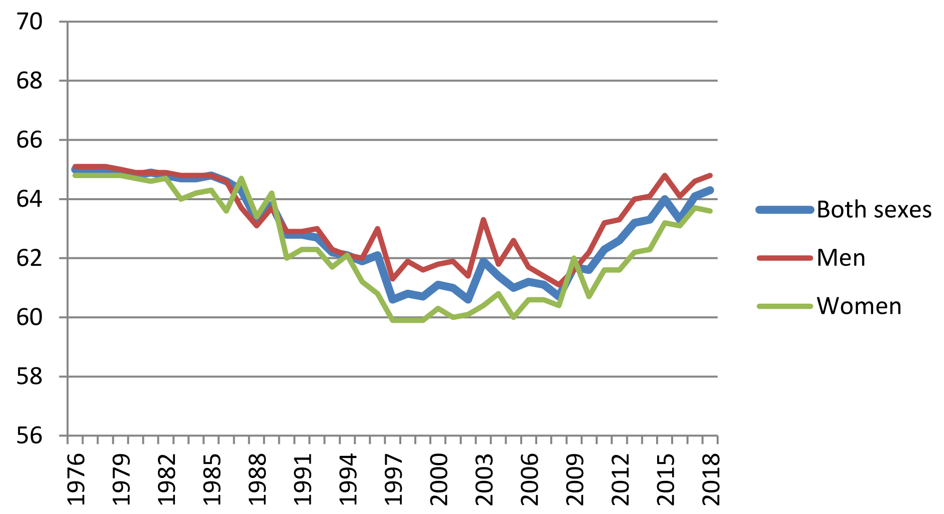
[2] The measure combines labour market factors with an individual's own assessment of what constitutes retirement. The data are based on the answer provided by those respondents to the monthly Labour Force Survey who are not working and who left a job within the past year. 'Retirement' is one of the possible answers to a question about why they left that job. As noted in text, there are many pathways between work and full retirement, and there is ambiguity about what it means to 'retire'. For example, we find that some people who reported being 'retired' in one month are found to be working in subsequent months.

Ideally, we would also like to have information about policy impact of changes that are taking place in the many pathways from work to retirement. Such information cannot be obtained from cross-sectional averages such as these. As well, average data provide no information about the dispersion around the median, i.e., the numbers of people who retire before and after the median age. Despite these limitations, the data still provides a reasonable estimate of trends. As noted in the text, they are supported by existence of other data that show similar trends.

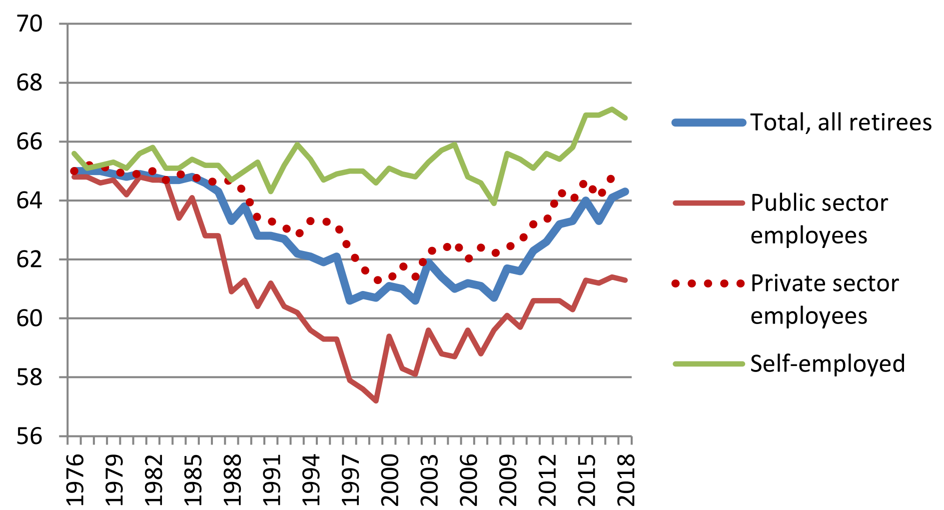
[3] Note, however, that, following the introduction of the CPP, many workplace pensions did provide provision for earlier retirement. Early retirement provisions were common throughout OECD countries until the 90s as a tool for dealing with high unemployment among older workers.

Chart 1. Median retirement ages, 1976 to 2018 by gender



Source: Statistics Canada [Table: 14-10-0060-01]

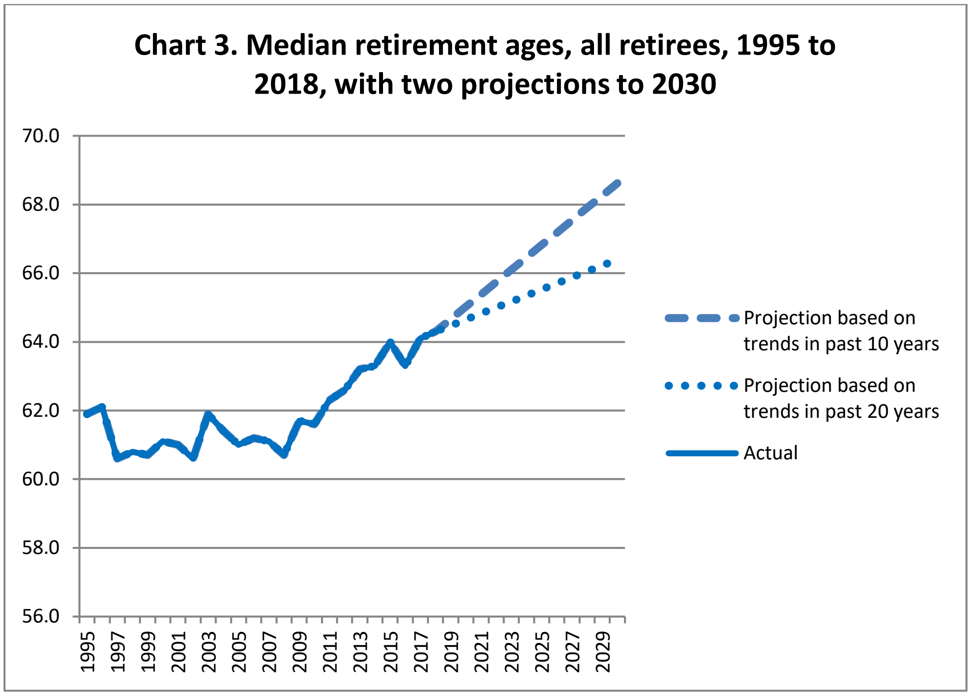
Chart 2. Median retirement age 1976 to 2018, both sexes



Source: Statistics Canada Table: [Table: 14-10-0060-01]

While past trends are interesting what really matters for policy analysis is likely future directions. A starting point is an examination of scenarios that assume a continuation of past trends. Chart 3 provides two extrapolations out to 2035, one assuming a continuation of the quite sharp increases in retirement ages that have been seen in the past decade, and the other which assumes somewhat more moderate increases based on a projection of trends over the past 20 years.

The extrapolation based on recent trends shows that by 2030, half of all workers will retire when they are 68 years or older – a scenario that would be seriously out of line with the age of eligibility assumptions built into today's pension arrangements. The other extrapolation is less dramatic, but it would still mean that most people would be retiring well after the age at which they have access to normal public pensions.



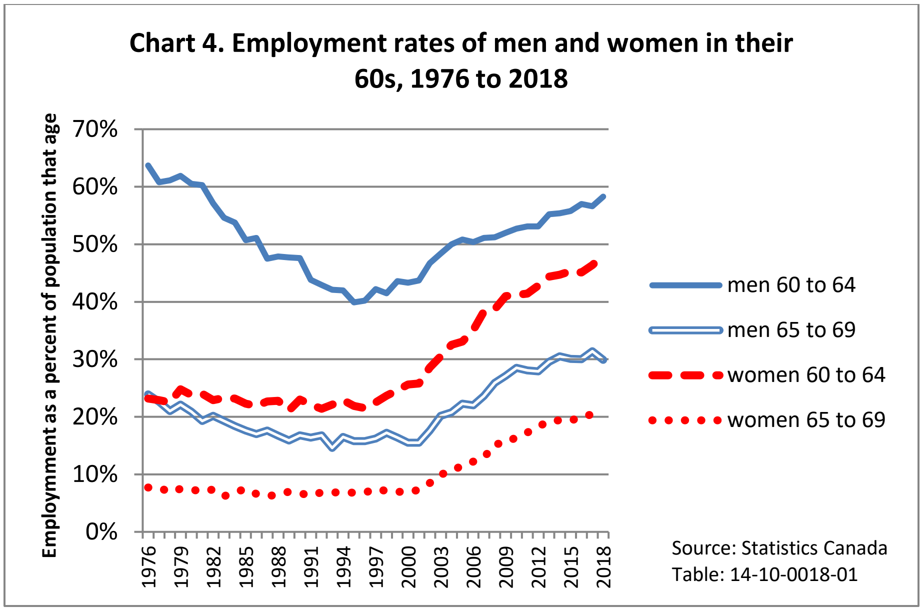
Source: Statistics Canada Table: 14-10-0060-01. Projections by author.

Retirement age trends are confirmed by other data

As noted in footnote 2, there are good reasons to treat the median age of retirement data with caution. Ideally, we would like to have longitudinal data the measured changes in the timing of the various transitions to retirement and to pension receipt. Nevertheless, the existing data do appear to provide a reasonable general picture of cross-sectional trends in median retirement ages. Other data sets provide comparable results.

For example, Brown and Aris in Greener Pastures: Resetting the Age of Eligibility for Social Security Based on Actuarial Science report that past trends in the average exit age from the labour market (as calculated by the Chief Actuary for the Canada Pension Plan using CPP data) follows about the same pattern as the median retirement age trends shown in Chart 1.

Authoritative data on employment rates from the monthly Labour Force Survey provide further confirmation. Chart 4 shows the dramatic growth over the past 20 years in the employment rates in older age groups. Employment rates have also been increasing sharply for people age 55-59 and for people age 70 – although the number of employees over 70 is still relatively small.



In a C. D. Howe paper, Later Retirement: the Win-Win Solution, I made some rough projections of the employment rate trends out to 2031 using different scenarios. When converted into retirement age projections[4] the results were similar to the higher of the two projections of median retirement ages shown in Chart 3 in a scenario where there would be continued growth in employment rates.

In a study, Delayed retirement: A new trend?, Carrière and Galarneau used a different method for calculating retirement ages based on employment trends to 2008, one that is similar to that used for calculating life expectancy. Their calculations show a large increase in retirement ages of more than three years for both men and women between the mid-90s and 2008, a significantly larger increase than shown by the median retirement ages in Chart 3.

Newly available labour force projections show continued increases. Statistics Canada has just released projections of the likely future size of the active labour force population based on sophisticated microsimulation techniques that take account of many variables. See The labour force in Canada and its regions: Projections to 2036. Chart 5 shows a projection to 2030 of the numbers of men and women 60 and over and 65 and over who will be in the labour force. The projected growth in all cases is sharp, particularly for women where future growth is likely to be faster than has been the case since the mid-90s.

Chart 6 shows that when these new projections are used, estimates of the growth of retirement ages in the coming years is *even higher* than the high projection of median retirement age[5]

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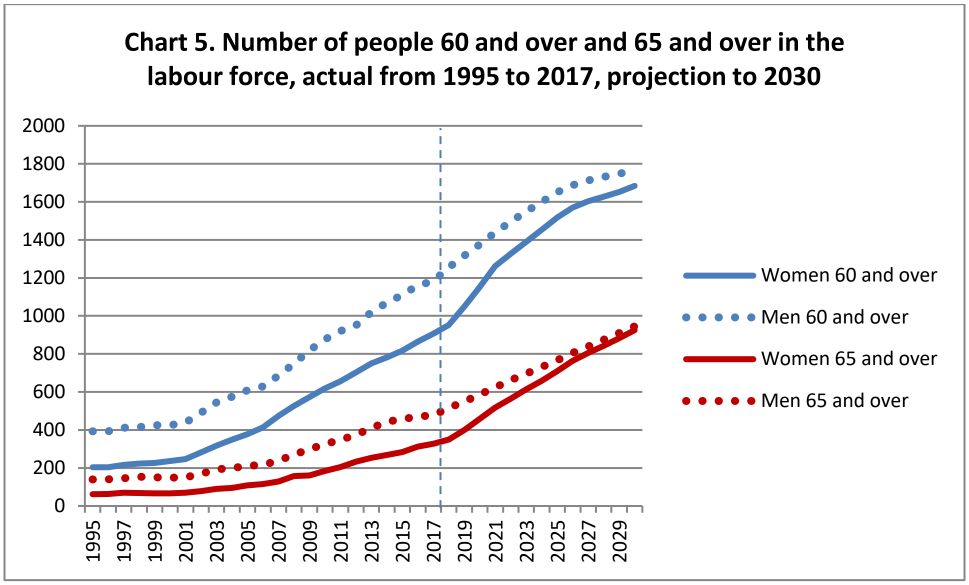
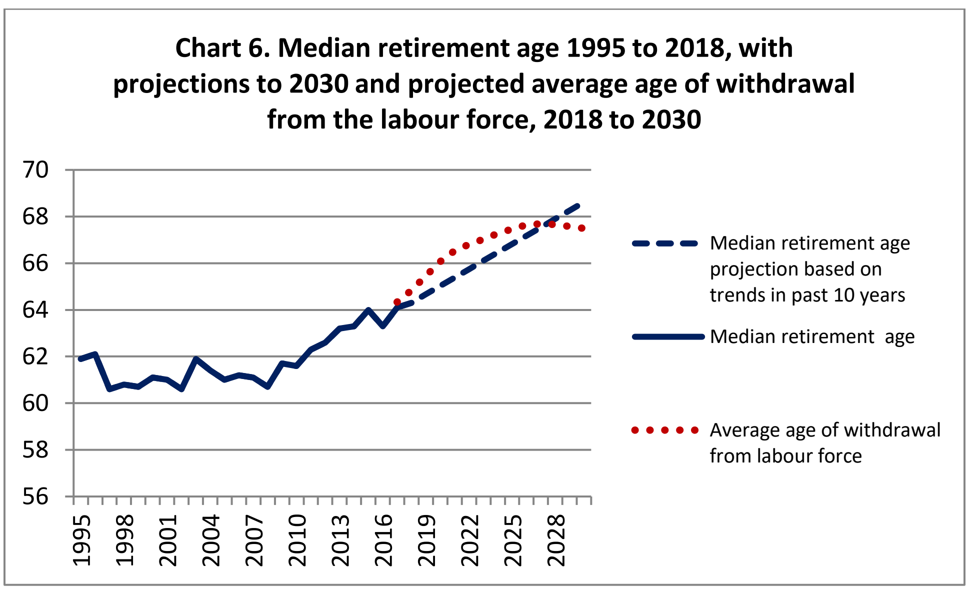
[4] Using the internationally accepted OECD methodology. See A method for calculating the average effective age of retirement

[5] Average age of withdrawal refers to retirement from the labour force (which includes both employment and unemployment.) While the calculation shown in Chart 6 is crude (assuming that no one retires before age 55 and

shown in Chart 3. However these new projections do show a levelling off in average (not median) retirement ages starting in the 2020s. This is mainly the result of cohort changes



Source: Custom tabulation drawn from Martel, Laurent. 2019. [‘The labour force in Canada and its regions: Projections to 2036’](), in *Insights on Canadian Society*, Statistics Canada



Source: See Chart 1. The average age of withdrawal projections were drawn from custom tabulations from Martel, Laurent. 2019. ‘The labour force in Canada and its regions: Projections to 2036’, in *Insights on Canadian Society*, Statistics Canada

everyone has retired by age 80 and using five-year age groups instead of single years of age), it does provide a reasonable estimate of the trend towards later retirement that is implicit in the new labour force projections.

related to the aging of the baby boom generation, as opposed to changes in behaviour at the level of individuals, a topic that we will return to later.

In summary, while projections about the future need to be treated with caution, data from multiple sources suggest that it would be wise for policy analysts to assume that the signifcant trend to later retirement ages that we have seen over the past two decades is likely to continue over the coming years.

It would seem prudent to assume that median retirement ages could increase by some 3 years in the coming decade. Some studies suggest that this assumption is too low, so that at least half of the population would retire at about age 68 or older – well above the current age of eligibility for most pensions.

As noted in the introduction, a priority should be placed on research that would yield even more precise estimates, including information about the various pathways to retirement that are followed by different population groups, including those that are most vulnerable.

Life expectancy and the duration of retirement

The duration of retirement is the difference between age of entry into retirement and death, with the demographic data on life expectancy at age 65 being the main indicator of mortality used for this purpose.

Life expectancy at age 65 for men was 16.0 years in 1996, about the time when retirement ages started to increase. By 2016 male life expectancy at 65 was 21.3, an improvement of 5.3 years, while for women the comparable increase was from 19.9 years to 23.7 years, an increase of 3.8 years. These increases in life expectancy were even higher than the growth in retirement ages during this period, indicating that years spent in retirement have increased when compared with mid-1990s, although at a far slower pace than in the two decades prior to the mid-90s when life expectancy was rising while retirement ages were falling.

On the other hand, the methods used by Carrière and Galarneau, referred to above, to calculate retirement ages suggest that the trend to delayed retirement has already stabilized the expected length of retirement. Their working-life tables show that the expected length of retirement increased from 1977 to the mid-1990s and has since remained relatively stable. They find that the expected length of retirement expressed as a percentage of total life expectancy after age 50 was about the same in 2008 as in 1977.

Retirement durations may fall in the coming years. In projecting ahead to the year 2050, the 14th Actuarial Report on the Old Age Security program is premised on an estimate of life expectancy at age 65 for men of 23.3 years and for women 25.6 years, about 2 years longer than today. This, of course, is less than the projected increases in retirement ages shown in Chart 6, suggesting that, if existing trends continue, people will soon be spending a little less of their life in retirement[6].

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[6] As will be discussed later, there are significant variations in life expectancy by socio-economic status: higher income individuals live longer than their poorer counterparts

Factors that could affect retirement age decisions in the coming decade

Changes in income and wealth

Decisions about when to retire are, obviously, greatly affected by financial preparedness among families, including earnings of family members, pension coverage, savings and home ownership status. A report from a survey of older workers found, not surprisingly, that of those who had retired, financial readiness was the main reason for retiring. See First Results from the Survey of Older Workers, 2008.

A ground-breaking 2001 OECD study, Ageing and Income: Financial Resources and Retirement in 9 OECD Countries, painted a picture of individual flexibility and adaptability in ensuring financial preparedness for retirement. The study, which compared retirement income in nine countries, including Canada, found that, on average, retirees in all countries had about the same standard of living after retirement as they did before retirement, despite large differences in the generosity of public pensions. People in these countries adapted their behaviour to accomplish this by a combination of means: working longer, changing family living arrangements, through savings and private pensions – and by taking account of their assets (particularly housing), as well as tax incentives and other household income flows in the form of disability and unemployment benefits.

Pension coverage is, obviously, a key financial determinant of retirement ages. A 2009 study by Ostrovsky and Schellenberg, Pension Coverage, Retirement Status, and Earnings Replacement Rates Among a Cohort of Canadian Seniors showed that people with a workplace pension retire earlier than those who are without such a plan. And, of course, changes in pension ages will influence retirement decisions especially for those who will have to work longer in order to have the income needed to retire without a drop in living standards. Since policy-driven changes in pension ages should be implemented gradually and with advance notice, there will be time for people to adapt a range of their behaviours, including savings. (See Section C for further discussion of the wealth and housing asset situation of future retirees).

Changes in pension age could also have an indirect effect by altering societal expectations and norms about what constitutes a normal retirement age. This is discussed further below.

Changes in public pension ages are not the only way in which government programs can affect people's incomes and hence their retirement decisions. In many countries changes in the generosity of disability benefits have affected retirement decisions. Employability programming that provides older workers with the skills to work longer has at least some potential to delay retirement ages. Another example is the easing of the high work disincentives that are currently associated with the GIS, announced in the 2019 federal budget. If and when implemented, this change should influence the retirement age decision of GIS recipients. Past experience with employability programs suggests, however, that their effects can be positive but are not likely to be large.

In summary, there appear to be no program changes, apart from possible changes to pension ages, on the immediate policy horizon in Canada that would have large impacts on retirement ages**,** including their upward trends.

Cohort effects

Cohort effects are important in understanding data on retirement durations and labour force participation rates. Part of the increase in employment rates in older age groups is simply a reflection of the fact that the older age population is increasingly composed of members of the baby boom cohort, whose labour force participation patterns are different from previous age cohorts. It is these compositional effects that, for example, account for the levelling off and small declines growth in labour market participation rates among older people that is projected to begin in the 2020s that can be seen in the new Statistics Canada projections discussed above.

For example, the aging of the baby boom generation means that today there are more people age 54 to 64 in the labour market than was the case in the past. Since people in this age bracket have higher employment rates than people 65 and over, this change in composition will, in itself, result in a rise in the average employment rate of the total population age 55 and over, compared with the past. Looking ahead, as large numbers of baby boomers reach the ages of 70 and beyond, ages where most people are retired, we will see a levelling off or decline in the percentage of older people who are employed, despite the increase in the participation rates of older workers.

A 2017 Statistics Canada paper, The impact of aging on labour market participation rates, found that compositional effects (including in education and family composition as well as age) account for some 44% of the increase in the participation rates of older Canadians during the period from 1996 to 2016. However, non-compositional factors were even more important. The paper suggests that some of these 'real' factors that influence individual behaviour include increased debt levels of older Canadians, increased wages, more favourable employment opportunities or better health.

Demographic and health characteristics.

Retirement ages could be potentially affected by changes in health and disability, in international and interregional migration patterns, in family composition and in skills and educational attainment. However, once again, there appears to be nothing on the policy horizon in these areas that would cause large changes in retirement ages in the coming decade[7].

When looking at factors that could influence total labour market participation, the new Statistics Canada projections referred to above found that assumptions about the demographics were not large drivers of changes, even when projected out to 2036. All their

[7] If one took a longer time frame, or even towards the end of our 10 year planning horizon, the cost of long-term care and the need for family care-giving could become an issue that might affect retirement ages, depending on policy responses in this area.

projections scenarios assumed a gradual levelling-off of the upward trend in education of the population and maintenance of the differences between projected population groups. They also assumed a gradual slowdown of the upward trend in the probability of not being in a marital union and, among people in a union, a continuation of the upward trend in the probability of living common-law.

The Statistics Canada projections did find, however, that different assumptions about immigration levels played an important role the labour force projections in some areas, particularly in the projections for Toronto and Montreal. We return to issues related to immigrants in the discussion below on the adequacy of retirement incomes.

There appear to be no evident changes on the near time horizon in the areas of health and disability that would result in large changes in retirement decisions over the next decade (apart from that noted in footnote 7). Nevertheless, these will be important factors in assessing the adequacy of retirement incomes and wellbeing, particularly among seniors in the oldest age groups. We return to this topic in the next section.

Societal expectations

A key question for this paper is the extent to which a change in pension ages is likely to cause a change in retirement ages. This could happen through the direct effects of delayed pensions on financial preparedness for retirement as discussed above. There is also a possibility that the use of 65 as the main age for public pension eligibility helps create a more widespread public expectation that 65 is a normal time to plan the start of retirement and that this expectation plays an independent role in retirement planning. For example, the report, First Results from the Survey of Older Workers, 2008, asked older workers about their retirement intentions. Of those who had a definite age in mind, there was a large spike at age 65, with over 40% planning to completely retire at that age.

A different picture emerges if we look at actual retirement ages as opposed to planned retirement ages. Chart 7, although a little dated, shows that there is indeed a spike in withdrawals from employment at 65 but that withdrawals take place across a wide span of years, and the spike in 2010 was not as high as it was in the mid-70s when age 65 was the median retirement age as shown in Charts 1, 2 and 3.

On balance, it seems that public pension ages likely do affect public expectations about what constitutes a normal retirement age and, in consequence, have some independent effect on retirement age decisions. However, this effect may be neither large nor quickly felt. The existing system is far from rigid. As described earlier, large and growing numbers of people work past age 65, despite the fact that most pensions are centered on that age. The CPP and QPP, while centered on 65, allow people to take actuarially adjusted pensions from ages 60 to 70. The multi-tiered nature of the Canadian retirement income system, with its heavy reliance on private savings to provide adequate retirement income for most, provides considerable flexibility in when people can retire – or require them to work longer if savings and workplace pensions do not provide sufficient income to retire. As well there are multiple pathways from work to retirement that can take place at different chronological ages.

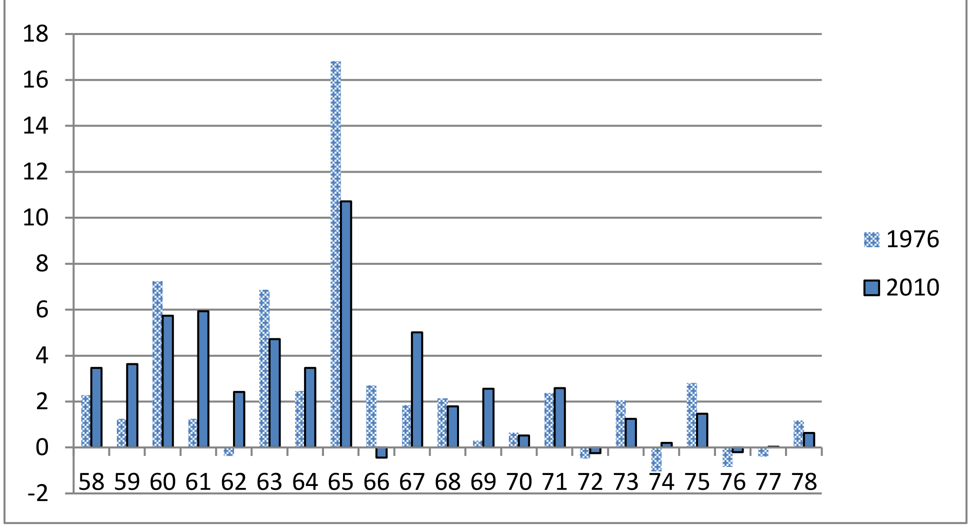

Chart 7. Drop in employment rate from the preceding year

Source: Custom table drawn from Carrière and Galarneau, Delayed Retirement: A New Trend?

Efforts in recent decades to combat discrimination against older people may also affect societal expectations around what is a normal retirement age. These efforts have resulted, for example, in the ending of mandatory retirement ages. The fight against agism has been accompanied by a better understanding of the value and capacities of seniors to maintain their involvement in and contributions to society, including in the workforce. In principle, these value shifts should support the trend towards higher participation rates and later retirement, although we are unaware of any literature on the size of this effect.

In addition, deeper life course changes have been taking place that could to play a particularly important role in shaping social expectations about normal retirement ages. These are changes in the ways in which work, care giving, learning and leisure are allocated over the course of life. For example, there has been a delay in the timing of 'adulthood', including delays in new family formation and having children, delays in leaving the parental home, staying in school (especially post-secondary education) longer and hence delays in entry to full time work[8] – with the likelihood of consequent delays in the timing of exit from work and in the gradual disappearance of retirement age expectations that center on the fixed age of 65. This, in turn, raises questions about the wisdom of tying retirement income programs to chronological age, a topic which is explored in the companion document.

Data sources, and much policy analysis, have not yet caught up with the delays that are taking place in the major transitions in life. For example, even the age breakouts provided in Statistic

[8] Data on full-time employment rates by single year of age suggest that, compared with the mid 1970s, there has been a delay in the start of the normal working life. Carrière and Galarneau, in the paper already referred to, report that this took place mainly in the 20 years following the mid 1970s, with less change over the past 20 years.

Canada's main data tables assume that the working age population is between 20 and 64 ages, with retirement being the main domain for those 65 and over, and schooling the main domain for those under 20.

C. INCOME IN RETIREMENT

We now turn to a discussion of issues related to the level of income received during the course of retirement, with a focus on particular groups and topics where there are concerns about the success of the retirement income system in meeting its earnings replacement and the poverty alleviation goals.

The section begins with a review of the current situation with respect to replacement rates and signals three areas of potential concern:

- Income adequacy for those without workplace pensions.
- Work/savings disincentives particularly for those with low incomes.
- The growing gap between the income of older retirees and people of working age.

This is followed by a discussion of poverty alleviation where, again, present arrangements appear to be working reasonably well based on the new official measure of poverty, but with the following areas of potential concern:

- Unattached older people particularly women.
- Immigrants and refugees.
- The situation of those in the oldest age groups.

Replacement rate goals appear to be reasonably well met currently

Income smoothing – maintaining pre-retirement living standards throughout retirement[9] – is one of the two main objectives of the retirement income system. It is therefore surprising that the most recent comprehensive study of success in meeting this objective is now quite dated, namely a 2010 Statistics Canada report by LaRochelle-Côté, Myles and Picot, Replacing family income during the retirement years: how are Canadians doing? found that the system was generally successful in meeting this goal.

[9] There is debate about what constitutes an appropriate replacement rate. It is less than pre-retirement income since there is no longer the need for work-related expenses – and, for many retirees, mortgage payments are lower, as are child-raising expenses. 70% is often used as a target for a gross replacement rate. Some critics have suggested that 60% would be a more appropriate target that would allow many people to maintain or even increase their living standards in retirement. As well, there is no consensus on what the 'pre-retirement' point of comparison should be used. Actual expenditures and income needs vary depending on the personal choices and circumstances of the individual seniors, including their housing costs and the need for long-term care. They may also vary across the course of retirement.

In an article, How Accurately Does 70% Final Employment Earnings Replacement Measure Retirement Income Adequacy? Introducing The Living Standards Replacement Rate, Bonnie-Jeanne Macdonald and colleagues used the LifePaths microsimulation model to find that there is an extremely weak correlation in practice between the 70% rule and the actual living standards of retirees. They propose use of a better measure for purposes of analysis and retirement planning, one that compares how much money a worker has available to support their personal consumption of goods and services before and after retirement.

Using longitudinal data from tax records, that study examined replacement rates, defined as the extent to which the economic resources available to the individual through income flows (mainly earnings) around age 55 are replaced by various sources of income (public and private pensions, investments, as well as earnings) as the individual moves from his or her mid-50s to any given retirement age. The study found that:

- After-tax family income available to the median individual during his or her 70s was about 80% of that observed when the same person was in his or her mid-50s.
- Net replacement levels are negatively correlated with family income: 110% among individuals in the bottom income quintile, 75% in the middle quintile, and 70% in the top quintile.
- However, some individuals have very low replacement rates. For example, 20% of individuals in the middle-income quintile had net replacement rates below 60%.
- Generally speaking, more recent cohorts have improved their income positions at all ages, whether before the retirement years (i.e., in their mid-50s) or in the later retirement years (at age 70 and over). This improvement was driven by both higher earnings and higher private-pension income.

Studies of people in their pre-retirement years do not suggest any immediate crises

A number of recent studies that examine the extent to which coming generations are prepared for retirement have taken a closer look at asset holdings and, on balance, paint a more positive view than might be expected.

For example, a member of the COA Experts Panel on Income Security, Jennifer Robson and a colleague used Statistics Canada surveys to examine financial literacy and capability in different generations. Their paper, Financial Independence and Well-being for the Next Generation, found that millennials (those currently aged between 19 and 39) are not less financially knowledgeable than boomers (currently aged between 54 and 73) or Generation Xers (currently between the ages of 40 and 53). They found that as a group, the millennials are doing OK when it comes to financial well-being.

They report that, in some ways, the millennials are doing better than gen-Xers did at the same age. On one hand, they have higher student debts, higher credit card balances, and no retirement savings at all when compared with gen-Xers led families at the same age. However they are also doing unexpectedly well on other dimensions including higher income, substantially higher assets (mainly housing), better access to workplace pensions, higher pension assets and lower rates of asset poverty. They are as likely to own a home and, for homeowners, their homes have substantially higher market value and net equity.

Based on some of the same data sources a Statistics Canada report, Economic Well-being Across Generations of Young Canadians: Are Millennials Better or Worse Off?, by Heisz and Richards comes to similar conclusions. It notes that disparities in economic wellbeing have become larger from one generation to the next. For example, the spread in net worth between millennials in the bottom 25% and those in the top 25% is larger when compared to the younger gen-Xers. It also highlights the importance of housing and high educational levels among the millennials. Those who entered the housing market had much higher levels of wealth, as did those with a university education. At the same time, millennials living in Toronto or Vancouver were in a stronger financial position, reflecting high levels of wealth at the top end of the net worth distribution, associated with higher principal residence values. However, millennials were also more leveraged, as their debt to after-tax income levels surpassed 200%.

Bob Baldwin, another member of the COA income security panel, looks in more detail at those in the 45 to 64 age groups who are currently approaching retirement. His conclusions are set out in Box 1. Again, many of the same themes emerge, including the important role of housing assets and the importance of geography in determining wealth.

Box 1. The wealth situation of those approaching retirement

Over the period from 1999 to 2016, the wealth (net worth and total assets) of Canadians approaching retirement who were in the middle of the wealth distribution grew quite strongly in constant dollars.

The growth in wealth was notably stronger than income growth over the same period. The growth was driven in large part by the increasing value of principal residences. But other forms of wealth also grew strongly including retirement wealth. Wealth grew across a fairly broad definition of the middle part of the wealth spectrum but was stronger in the upper part of that spectrum than at the lower part.

The extent to which the increase in wealth will translate directly into increased retirement incomes depends on the cost of a dollar of retirement income and that increased over the period. The increase in cost would offset much but not all of the increase in wealth.

The assets of Canadians approaching retirement age were more highly leveraged in 2016 than in 1999 and, as a result, is more vulnerable to movements in interest rates. There are also vulnerabilities for subsets of the population. It is clear that persons not in economic families are at greater financial risk than members of families. This subset of the population is growing.

The lack of growth in Workplace Pension participation is a matter of concern as is the shift away from plans that have some Defined Benefit element to them. The latter part of this concern is particularly relevant to Canadians in private-sector employment as the contribution rates in Defined Contribution Pensions are too low in the current environment to produce good retirement incomes.

It is clear too that while net worth in principal residences can play a very important role in wealth accumulation for many Canadians, the role of this source of wealth will vary substantially based on geography.

Source: The above was taken almost verbatim from the conclusion of Bob Baldwin's C. D. Howe Working Paper, The Evolving Wealth of Canadians Approaching Retirement.

On balance, these recent studies do not point to any crisis in retirement replacement incomes in the next decade, certainly if housing prices are stable. However, more specific and long-standing concerns are re-enforced, particularly for people who are unattached and those without workplace pensions. As well, the gap between the rich and the poor remains a growing concern.

However, sophisticated projections do point to problems ahead

A quite different, and more problematic, picture emerges from studies that project ahead. Much the most sophisticated of these was carried out using microsimulation modelling by still another member of the COA Expert Panel on Income Security, Michael Wolfson, whose 2011

IRPP paper, Projecting the Adequacy of Canadians' Retirement Incomes Current Prospects and Possible Reform Options, took account of the interaction of a great many variables[10]. The results show that a substantial proportion of middle-income Canadians are likely to face significant declines in their living standards after retirement. About half of the late baby boom generation with mid-level earnings in working years can expect at least a 25 percent drop in their living standards by age 70 — taking account not only of the public pension system, but also private retirement savings in RRSPs and workplace pensions, and accumulated equity in owner-occupied housing. Women especially can expect a further drop when they reach age 80.

The reasons for the drop in replacement incomes include an anticipated continuing decline in pension coverage and access to defined-benefit workplace pension plans for younger cohorts. Another major reason is the growing impact (with correspondingly larger effects on younger birth cohorts) of the indexing of OAS and GIS benefits. These programs are indexed to consumer prices, and not to nominal wages, which means that the proportion of preretirement income replaced by these programs will be falling over time.

Note that Wolfson measures net replacement income in a way that allows a much more direct assessment of the success of the goals of the retirement Income system in avoiding drops in consumption and living standards in retirement. His method takes account of variations in taxes, savings and debt, changes in family size, housing wealth and other factors that come into play throughout an individual's working and postretirement years and that affect consumption possibilities over time. This is in contrast to the more common use of gross replacement incomes which usually set a cruder target of 70% (or 60% in some analysis) of pre-retirement income.

While extremely useful, the projections approach just described should, like any other projections, be treated with caution. The examination of the millennial generation, discussed above, raises the possibility that the coverage of workplace pensions may not necessarily continue to decline. Governments could well mimic wage indexation by ad hoc adjustments to the OAS and GIS. Most important, the projections may not fully take account of the dramatic increases in retirement ages that were discussed in the last section.

Issue: continuing concern about replacement rates for those without workplace pensions

While Canadian governments have never committed to "official" targets, the Retirement Income System seems to do a good job at present in meeting its underlying

[10] Wolfson used his model to assess different CPP reform proposals that were then being considered and found that that options that involve prefunding (as virtually all did) would not address the projected shortfall in living standards since they would take far too long, 40 years or so, before their full effects were felt. This is well beyond any sensible planning horizon as discussed earlier. In a 2013 follow-up paper, Not-So-Modest Options for Expanding the CPP/QPP, Wolfson examined an option that would make real improvement in a meaningfully shorter time frame by dropping the constraint of full pre-funding and making it fiscally realistic by increasing the age at which new as well as existing CPP/QPP benefits would come into force, i.e. increasing the pension age.

replacement rate objectives. However, there are some issues that will almost certainly require policy attention during our ten-year time horizon.

Perhaps the major concern remains a continuing worry about the future adequacy of retirement income rates for those without Workplace Pensions. This was highlighted in Bob Baldwin's look at the assets of those who are now nearing retirement and in Michael Wolfson's projections. The concern is well recognized and, as referred in the last section, was a main driver in the policy discussions over the past decade that led to the eventual changes that added a new pre-funded component to the CPP. These legislative changes came into effect this year.

However, these new CPP enhancements will take many years to come into full effect. The full benefits will only be felt by young people who are only just now entering the labour force, with existing workers remaining vulnerable. In the absence of improved private pension coverage it therefore seems likely that the issue will remain a concern over the coming decade**s**.

The final section of this paper will propose that a much stronger monitoring capacity be established that would, for example, assess the success of the retirement income system in meeting its income replacement goals and identify issues that may require future policy action. It would maintain a watching brief on the positive and negative findings about financial preparedness for retirement described above and would signal the need for policy action when and if needed.

Issue: growing gap between the income of older retirees and people of working age

The existing pension system is designed to ensure that the living standards do not fall in retirement. Since pensions are not indexed to wages[11], the result is that, as overall wages and living standards rise, the living standards of retirees will fall relative to that of workers (and to average for the population as a whole) even though for many, their living standards may not fall when compared with those that they enjoyed during their pre-retirement years.

It could be argued that maintaining a person's pre-retirement income standards is a sufficient goal and that the extra costs that would be required to ensure that retirees keep up with increases in society-wide living standards would be better allocated to other priorities such as strengthening the long-term care capacity that would also benefit seniors. In this line of argument, if the gap between the current living standards of retirees and workers got too far out of line (as might happen during an extended period of rising real wages), a discretionary increase in pension benefits might be required on occasion, but that such increases would not be automatic. Others prefer having a formula-driven intergenerational agreement within the pension system itself[12]. We return to the question of linking intergenerational issues with particular programs in the next section.

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[11] Except Q/CPP up to the time of retirement.

[12] A 1983 Parliamentary Committee recommended a formula that linked public pensions not only to current prices and wages, but also to life expectancy and employment rates.

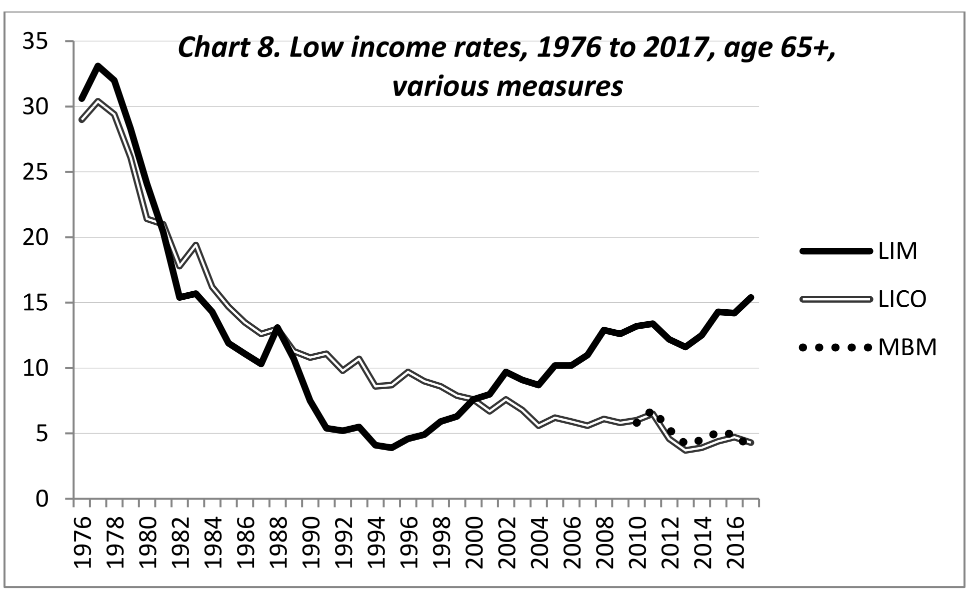
More interestingly, the income gap between retirees and workers can also be thought of in terms not only of maintaining living standards, but also in terms of the poverty alleviation objective of the retirement income system, a topic which is discussed further below. The policy discussion changes noticeably when looked at in this different context.

In recent decades there has been movement in many countries to think of income poverty as one dimension of social exclusion. In some cases, the policy goal is cast in terms of fighting exclusion rather than poverty defined in terms of material deprivation alone. Québec, for example, has legislation whose purpose is to combat poverty and social exclusion, one of whose goals is to reduce the inequalities that may be detrimental to social cohesion.

Indeed, the main measure of poverty that is used world-wide, the Low Income Measure (LIM) is a measure of exclusion, not material deprivation. It defines income poverty in relation to the distance from the median income of the whole population. In choosing its official measure of poverty, the Government of Canada has recently decided to go in a different direction. Without denying the importance of the concept of exclusion, it has decided to base the official poverty line in Canada on the Market Basket Measure (MBM). The MBM measures material deprivation, namely the percentage of people with incomes below a threshold level that is needed to purchase an adequate basket of goods and services. The LIM, on the other hand, compares the income of seniors with that of the whole population – the issue at question here.

The social exclusion measured by the LIM for seniors is much higher than the material deprivation measured by the MBM. In 2017 the LIM rate for those 65 and over was 15.4%. This was a little higher than the LIM rate for the population as a whole (12.7%), and far higher than the MBM poverty rate for seniors (3.9%) discussed below.

As well, as can be seen in Chart 8 the LIM poverty rate for seniors has been rising in recent years, while the official poverty rate has been falling. (The MBM is available for only the



Source: Based on custom tables provided by Statistics Canada.

- LIM is the Low Income Measure after tax
- LICO is the Low Income Cutoffs after tax, 1992 base
- MBM is the Market Basket Measure, 2011 base

recent past, so the graph also shows the Low Income Cut-off measure or LICO which has a long history. The LICO is similar to the MBM in that it measures adequacy although it uses a different methodology. Since its inception, the MBM for seniors has shown about the same levels and trends as the LICO.)

The decline in the MBM rate for seniors shows that the income levels of lower income seniors have improved in terms of their ability to purchase a pre-determined basket of goods and service, while the increase in their LIM rate shows that the income gap between lower income seniors and other Canadians is getting wider. In other words, if we think of the gap in terms of social exclusion, as measured by the LIM, there is a real issue that could well result in pressures that point in the direction of wage indexation of pension benefits, including Old Age Security.

As well, the relatively high LIM for seniors will likely be subject of policy attention over the coming decade since the LIM is the international measure used, in comparing country experiences in meeting, for example, the high profile UN social development goals that were set for 2030.

The issue is, obviously, complex and is likely best dealt with as part of a larger package of reforms that takes account of other factors that should also shape policy, particularly for the older age groups among seniors. The issue mainly arises because the durations of retirement are so long. Many retirees left the workforce 20 or more years ago, and much can happen to wages and living standards over such a long period.

Monitoring the size of the gap, and how it is distributed by age, gender, family type and geography would be an important task of the proposed monitoring capacity mentioned above and discussed in the final section.

Issue: work disincentives for those with low incomes

As the COA income security panel noted in its submission, Comments on Bill C-87, an Act Respecting the Reduction of Poverty, the treatment of earnings for low-income seniors who wish to work is, in many instances, worse than in comparable welfare programs. In Ontario, for example, poor 64 year-olds who are working and who leave the social assistance system when they reach age 65 face a nasty awakening when their employment and self-employment incomes are taxed back via reductions in the GIS and the related Ontario top-up program at 100%. Those who work face tax backs of 75% on GIS once they have worked through the $3,500 exemption for paid wage employment. Working later in life for those who so wish, and who can find jobs, should be encouraged, and not penalized, by policy.

Official poverty alleviation goals are being well met, at least for most

Providing a continuation of pre-retirement living standards is one of the two main goals of the retirement income system. The other is poverty alleviation. When looking at broad averages, and when poverty is defined in terms of material deprivation, there has been considerable success in reducing poverty among seniors. In 2017, the official poverty rate among seniors (which is based on the income needed to purchase a basket of goods and services that is deemed to be modest but adequate), was just 3.9%, far lower than the 9.5% that is experienced by the population as a whole. Moreover, the rate has been falling in recent years.

There are cautions to be attached to this success story. As described above, the situation is less satisfactory when poverty is seen in terms of exclusion as witnessed by the growing gap between the incomes of seniors and those of workers. Also, the official measure describes only the numbers of seniors who fall under the MBM threshold. There are other dimensions of material deprivation, such as the depth of poverty or its duration, that are at least as important. As well, objections[13] have been raised about the arbitrariness that is inevitably involved in the selection of the goods and services to be included in the basket – and whether any single basket should apply to all. For example, is an MBM based on the needs of working age family of four, when converted, reasonable for an 80 year-old single senior?

Nevertheless, the decision to create one official measure of poverty based on an undeniably central dimension of poverty, namely the number of people who do not have the income to purchase an adequate basket of goods and services, is a big step forward, despite the problems mentioned above. The challenge will be to ensure that the official measure is not the only one that drives policy. The proposal to establish a stronger monitoring capacity could be a big step in providing a vehicle for highlighting the many dimensions of poverty and exclusion that need to be addressed by policy.

The recent reductions in poverty as measured by the MBM are real and most encouraging. However, there are groups of seniors where poverty, as currently defined, is still an issue. Unattached people, immigrants and the oldest groups of seniors may warrant policy attention during our 10 year planning period.

Issue: unattached people

Among seniors, unattached older people (i.e., living alone) have particularly high poverty rates. For this group the official poverty rate in 2017 was 8.4%. This is much higher than the 2.2% for seniors living in family settings. Note however that even for this group of the most vulnerable seniors, poverty rates are much lower than the 31.3% rate for unattached working-age people.

A number of factors account for the higher poverty rates among unattached seniors. There are almost twice as many women as men living alone, with widows being the largest group. According to a 2006 study by Bernard and Li, Death of a Spouse: The Impact on Income for Senior Men and Women, the loss of a spouse affected the income of women differently compared to men. Senior widows saw their median income decline continuously in the five years following the loss of the spouse. On the other hand, widowers' median income was higher five years after the wife's death when compared to the year before that event. For senior widows taken as a whole, the loss came mainly from both lower pension income and earnings.

Not only did widows' incomes decline after the death of a spouse, but also more of them fell below the low-income threshold following widowhood (with the LIM used as the threshold in

[13] Including by the Experts Panel in its paper Toward a New Canada Poverty Line. The advice offered in this paper would remain helpful in any future revisions to the official poverty measure.

this study). Lower earnings contributed the most to the decrease in income among widows in the lowest income groups.

Many factors other than marital status are linked to the higher poverty rates among women who are unattached. One is a reflection of the fact that many of today's senior women were less active in the labour market than is now the case and had, in consequence, less pension income in their own name. As well, the lack of work experience in the middle years of life results in fewer possibilities to find work in one's senior years. Labour force participation rates for the unattached are lower than for people living with others.

Another factor is the reality that living alone is more costly than living in families where expenditures on food, entertainment and, especially, accommodation can be shared.

The focus of the present paper is on retirement income topics that might be on policy agendas in the coming decade. A recent paper, Living alone in Canada, by Tang, Galbraith and Truong[14] suggests that much could change in a decade. They report that the number of persons living alone in Canada has more than doubled over the last 35 years, from 1.7 million in 1981 to 4.0 million in 2016. However, the growth has been sharpest among adults aged 35 to 64, while there has actually been a small decline in living alone among seniors (although living alone is still heavily concentrated among seniors). Reflecting this shift, persons living alone in 2016 were more likely to be male and separated or divorced than in the past.

In other words, the retirees of tomorrow, compared with today's retirees, will have had a quite different history in terms of marital status and living alone, as well having had quite different labour market experiences in their middle years. Family and marital backgrounds will be more varied. The longevity gap between men and women will have narrowed with consequences for the time spent in widowhood.

The net effect of all these changes on poverty among unattached people (and on gender differences in poverty) is not immediately clear. So once again, what seems to be called for is an investment in analysis and a need for continued monitoring.

Issue: immigrants and refugees

In its earlier work on poverty, Comments on Bill C-87, an Act Respecting the Reduction of Poverty, the COA's expert panel on income security identified immigrants and refugees as a key area where better policy responses were needed. Many immigrants are sponsored and cannot

[14] The study by Tang, Galbraith and Truong found that the predominant marital status of seniors who live alone differs by sex. This reflected differences in life expectancy between the sexes and the fact that women tend to marry men older than them. They report that "across all age groups in 2016, male solo dwellers were more likely than their female counterparts to never have married. Widowhood was the most common marital status among senior women who lived alone in 2016 (60%), while being separated or divorced was most common for senior men who lived alone (41%)."

Their study also provides a reminder that some caution must be used in looking only at income. It is not the only indicator of social well-being. For example, the 2017 General Social Survey results do not support the view that female widows are unhappy, Among all solo dwellers, senior women were the most likely to report high levels of life satisfaction in 2017 (72%), significantly more than their male counterparts in the same age group (62%).

receive the Guaranteed Income Supplement for 20 years while most immigrants to Canada come from countries with no reciprocal social security agreements with Canada. The result was long waits for OAS benefits and disentitlement from in-kind programs like prescription drugs and mobility aids. These are the seniors that have swamped food banks, shelters and community hubs in cities such as Toronto.

A 2017 Statistics Canada study by Picot and Lu, Chronic Low Income Among Immigrants in Canada and its Communities, found high chronic or long-term poverty rates for all immigrants, but especially so for older immigrants:

- Immigrants over the age of 65 had the highest rates of chronic low income in 2012, at around 30%. This was roughly three times higher than the rate among immigrants aged 25 to 54.
- Among immigrant seniors who have been in Canada for 5 to 10 years, over one-half (56%) were in chronic poverty in 2012. This is in sharp contrast to the older population in the comparison group (mainly the Canadian-born), who displayed the lowest chronic low-income rate of all age groups, at only 1.9%.
- High chronic low-income rates were also observed among unattached immigrants and lone parents.
- As well, there were large differences in chronic rates by immigrant place of birth, even after adjusting for differences in other characteristics, such as official language, years since immigration, immigrant class, age, and family type. Place of birth matters beyond the effect of these characteristics.

There can be no doubt, given these most troubling findings, that the situation of immigrants and refugees must remain high on the list of retirement income topics to be dealt with in policy planning and monitoring over the coming decade.

Issue: poverty in the oldest age groups

Often policy analysis related to seniors treats people over 65 as a single group, implying that the needs and circumstance of all seniors are similar from a policy perspective. This is not the case and we are suggesting that separate analysis be undertaken that distinguishes between the very different circumstance of, for example, people age 67 and 87. This would likely involve an insistence that retirement income analysis be undertaken by, for example, 5 year age groupings, or perhaps by also routinely presenting data for people 70 and over, 75 and over, 80 and over and 85 and over.

Following are some of the reasons why a separate analytic focus on the oldest groups is essential:

- It would take account of the different labour market characteristics of younger and older seniors. People in their later 60s and early 70s have skill and health profiles that are quite similar to people in younger age groups. Policy discussions related to the retirement income of the younger group of seniors will place a heavy focus on work and earnings, while this focus would be largely a distraction in policy discussions and analysis related to the older groups, at least for analysis that has a time frame of ten or so years.

- It would allow better focus on the policy-related income needs of the oldest groups, including the growing longevity risks that can result in insecurity among the oldest. For example, Bonnie-Jeanne MacDonald has suggested in a C. D, Howe report, Headed for the Poorhouse: How to Ensure Seniors Don't Run Out of Cash before they Run Out of Time, that it is time to consider an additional government-led program that would enable retiring Canadians to pool their financial savings to better protect those who live to age 85 and beyond. She argues that a new program along these lines would provide the affordable, secure retirement income that seniors want, when they need it, without shifting the cost and risk burden to the rest of Canadians.
- Similarly, it would allow a clearer focus on the issues discussed above about wage indexation of pensions and of the diverging living standards between seniors and those people who are still in the labour market. This resulting sense of exclusion should grow with number of years since leaving the workforce. This can be best analyzed by examining the situation in the oldest age groups. Such analysis might well attempt to distinguish income-related exclusion from health and disability-related exclusion among the oldest. As well it might bring in data on life satisfaction; the data presented in Box 5 in the next section suggest there may not be that strong a link between perceived life satisfaction and income among seniors.

More generally, the interplay among policies related to income, to long-term care, and to housing is often clearest and most challenging among the oldest age groups – and where the effects of living alone or being an immigrant are most acutely felt. A greater focus on the older age groups in analytic studies and in ongoing monitoring might draw attention to the need for more coordinated policymaking in these areas.

D. How to frame a policy agenda with gains on multiple fronts

Summary

For the past 25 years, policy discussions about pension reform in the developed world have largely been framed in terms of policy responses to the threats posed by population aging. It basically comes down to a call to raise pension ages in order to provide fiscal savings and increase labour supply. While Canada has, happily, not followed this path in practice, population aging has nevertheless been a dominant consideration in our policy discourse. The result is that insufficient attention has been placed on far more productive ways of thinking about future directions.

The traditional case for reform is that raising pension ages will:

- Increase the number of workers in light of anticipated labour shortages.
- Reduce fiscal costs by reducing the duration of pension payments.
- Increase generational fairness in financing by providing a tighter link between the contributions made and the benefits received by each generation.

We show why the recent rapid growth in employment by older workers has meant that these traditional 'population aging' rationales for raising pension have been exaggerated. We can shift from negative thinking that equates pension age reforms with cutbacks to the pension system to a positive exploration of the opportunity to make significant gains in social and economic wellbeing, at no additional cost and with few, if any, losers.

The proposed approach involves:

- Exploring different possibilities for win-win outcomes by constructing packages of reform options that include bringing pension ages into line with actual retirement ages and using the resulting savings to fund other priorities. These priorities include addressing the issues identified in the preceding section and providing even better support for those who would lose if pension ages were raised in isolation.
- These packages would be assessed in terms of their impacts on social and economic wellbeing at that level of individuals, with economic and fiscal gains being seen as side-benefits.
- They would also be assessed against a 'no change' option which will show that taking no action on pension ages can result in new challenges in the form of an unintended jump in income received in retirement and in growing inequality among seniors.

We conclude by making some observations on the need for public consultations based on these packages of reform options.

The rare opportunity to make major policy gains without additional cost

Before turning to the main argument, it may be useful to explain immediately what we mean by policy solutions that appear to be win-win. The opportunity for this to happen is rare and readers will be properly wary of such a claim. In this case they arise out of the employment rate trends described in Section B, which suggest that many people will soon be working well past the age at which they are entitled to pension benefits. It is this quite unusual situation that opens the possibility for making gains on multiple fronts without additional costs. To illustrate, suppose we were to start with a clean slate in a hypothetical country where most people retired at age 68 with some retiring a bit earlier than that and some retiring a bit later. Now suppose that:

- The existing arrangements for providing income in retirement were to magically disappear and that we were asked to start anew and design a comprehensive government-financed pension system that would come into effect immediately with the goal of ensuring that pre-retirement living standards are maintained during retirement.
- A constraint is placed on our design such that eligibility for the new pension benefit was to begin at a specified age, although with the possibility of actuarially-adjusted benefits during a period of five or so years on either side of that age in order to accommodate those who retired earlier or later than that specified age.
- The constraint of maintaining pre-retirement living standards would be lifted in the case of low-income people who, during their working life, often relied on less-generous social assistance programs. In other words, another goal of the new pension program would be to ensure that low income people received a decent, secure basic income once they reached the age of eligibility for the new pension, even if it results in a modest increase in their living standards after they reached that age.
- That, again magically, the age at which the new benefits were to start had no effect on retirement decisions, with people continuing to work until age 68.

What age of eligibility for pension benefits would we pick in these hypothetical circumstances? It is hard to imagine any answer other than age 68. No other pension age would make any sense. For example:

- If the age were set at 71, then people's living standards would not be maintained but would fall (drastically in our hypothetical example!) between the ages of 68 and 71.
- If the pension age were set at 65, then living standards would similarly not be maintained but would be significantly higher after age 65 since people would still be working and earning after 65. And there would be a huge and unnecessary extra cost to the government to finance this unintended windfall.

Turning now to the real world in Canada, Section B suggested that age 68 could well become the median retirement age within our ten-year planning period. There is even the possibility that it could become higher than that, especially if we take an even longer time horizon. However, in the real world there is no clean slate. We must deal with the reality of a very complex retirement income system that is centered on age 65. Shifting to age 68 (or some other higher age suggested by deeper research) holds much potential for creating unintended winners and vocal losers, if done in isolation. Pension ages do affect retirement ages, although as the last section argued, perhaps not as directly and immediately as might be thought.

Despite all these important caveats, it is important to underline that the result of moving the pension age in line with the retirement age would eventually result in most people spending significantly less time over the course of their lives in receipt of pension benefits than is now the case. As a consequence, there will be a reduction in the cost of providing those benefits – to the individuals themselves, to governments and to employers through reduced contributions. Those savings are a windfall that should allow us to devise cost-neutral policy solutions that could improve social and economic wellbeing in significant ways.

Here we simply note that the savings are potentially large, even if the reforms they fund will be felt only indirectly and gradually. Quite apart from providing gains in wellbeing and choice at the level of individuals, they also provide the potential for putting together cost-neutral reform packages that could address the issues raised in Section C as well as compensating those who would lose if pension ages were increased in isolation.

Before turning to a discussion of these new opportunities, the following paragraphs will explain why the traditional fiscally driven concerns should no longer drive pension reform agendas.

A reform agenda driven by population aging ignores the evidence

In 2017, our experts panel showed why the relevance of traditional demographically driven analysis of the effects of population aging has been undermined by the trend to increased employment rates among older people. Box 2 summarizes our argument then. In this paper, we amplify on the reasons why the traditional goals of increasing pension ages in response to the population aging pressures (i.e., labour supply, fiscal and intergenerational) no longer seem as pressing as they once did.

Why the traditional labour supply argument is exaggerated

The demographically driven dependency rate argument points to labour shortages when the baby boomers reach traditional retirement ages. It then argues that increased pension ages will result in an increased supply of older workers to help meet this shortage. This kind of thinking made more sense when it first became popular some 25 years ago, a time when past trends had been towards earlier retirement and when many people retired significantly earlier than the pension age. The question is why the traditional argument has persisted in light of the subsequent 20 and more year trends towards later retirements, and in light of projections that show many people will continue working well past pension ages.

One of the reasons that the traditional arguments have persisted so long is that Canada has not had any official labour market projections that took account of the likelihood that the growing participation of older workers will continue into the future[15]. As indicated earlier, that has now

[15] The previous labour force projections from the DemoSim model assumed that participation rates would remain unchanged from 2018 on into the future.

Box 2. The threat of population aging has been exaggerated

In in its 2017 paper, *The Grey Tsunami Threat: A Failure of Evidence to Drive Policy*, the Income Security Panel of The Council on Aging of Ottawa showed how concern about the negative effects of population aging were being exaggerated – by the media and by much policy analysis including analysis associated with budgets – through a failure to take account of the likely continued growth in the employment rates of older people.

The threat of a grey tsunami is based on a dependency rate analysis which shows that, as the baby boomers reach retirement age, the number of people over 65 will grow more rapidly than the numbers of people of working age. It is alleged that this will create labour shortages and that living standards could be endangered since there would be relatively fewer people producing goods and services compared with those who consume those goods and services. It is also alleged that serious fiscal problems could arise with fewer taxpayers and pension contributors to pay for the unfunded pensions of a larger older population who would also need more costly health and long-term care services. Intergenerational unfairness, and tension, could grow to the extent that the smaller working age generation was paying more than their share in supporting the larger generation in their retirement years.

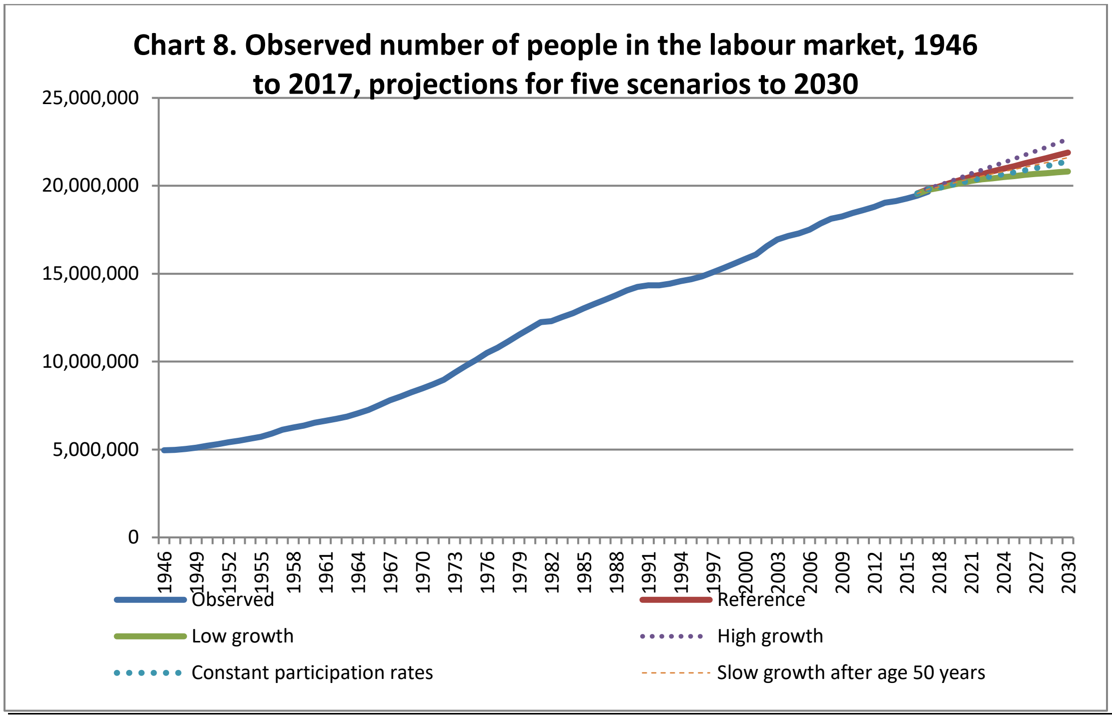
The problem with this dependency rate analysis is that it is based only on demographic factors (comparing the numbers of people over 65 with the number between the ages of 20 to 64). What really matters is the actual number of people who are working (and the hours they work) compared with those who are not working. The rapid growth in the number of older people who are working longer, along with strong growth of women in the labour market, has offset the demographic factors to a considerable extent. And this critical fact has been largely overlooked in much current analysis that typically assumes that retirement ages will either peak at age 65 or will remain unchanged at current levels into the distant future.

The Grey Tsunami paper addressed this by calculating two sets of projections, one that assumed that employment rates would remain unchanged into the future and the other that assumed they would continue to grow in line with past trends. It showed how the ratio of hours worked in the economy to hours not worked would change in the future based on the two assumptions. It showed that in neither case is the problem as large as was often alleged and, with a reasonable assumption of a continued growth in the employment rates of older workers, many of the negative effects of population aging would be offset. It found that:

> "… the potentially negative effects of the retirement of the baby boomers on Canada's labour supply, and hence on material living standards, were never large to begin with. Moreover, they are likely to be largely or entirely offset by changing labour market patterns. Further, compared with many countries, Canada is in a good economic position with respect to labour supply including both the number of employees and the hours that are worked.
>
> "The typical tsunami threat story also raises concerns about the effects of population aging not only on employment and living standards but also on the costs of health and long-term care. … Concerns about the cost of the health and care sectors, both now and in the future, are justified. However, the concern about an explosion in those costs that is driven by aging is not supported by the evidence. In reality, population aging is a relatively small factor in accounting for likely future increases in health care expenditures in Canada. Technological factors, not demographic factors, have been the main drivers of health care costs.
>
> "…The key point is that most of the population over age 65 is, and will continue to be, functionally healthy and that the extent of severe disability that is likely to require institutionalization, while growing, is still relatively small. Further, the main concerns related to institutional care are not likely to arise for another 20 years when large numbers of the baby boom generation will be reaching their mid-80s."

changed with the recent release by Statistics Canada of sophisticated new projections. These examine many scenarios about the future including a reference scenario that assumes a continued growth in the participation of older workers, as can be seen in Chart 5 earlier in the paper.

Chart 8 shows how the new projections play out in terms of the total size of the labour force, showing data going back to 1946 and projected out to 2030. We see a steady increase over the past 50 years, sharpest during the period up to the 1980s and increasing more gradually since then.



Source: Martel, Laurent. 2019. 'The labour force in Canada and its regions: Projections to 2036', in *Insights on Canadian Society*, Statistics Canada

A scenario based on high population growth (assuming increasing immigration levels) shows continued labour force growth at about the levels seen in recent years. The reference projection (which assumes a medium population growth scenario) shows a more modest growth during the projected period, with other scenarios showing even more of a levelling off.

The new projections do not point to any big crisis ahead. The size of the labour force will continue to grow although at a somewhat slower rate, with the increasing participation of older people in the labour market offsetting some, but not all, of the effects of population aging. Many factors can affect labour supply and demand, but the aging population dimension of labour supply will continue to have a modest effect in the direction of continued labour shortages. This, other things being equal, will ensure that there will also be a continuing demand for skilled older workers.

It is important to note that the new projections show that geography matters in this kind of labour market analysis. Box 3 reports on their findings. We return to the importance of geographic analysis in Section E. There are also geographic implications for the provision of a variety of services, including long-term care.

Box 3. The importance of a geographic perspective

The [Statistics Canada report] that released these projections also points to the need to carry out this kind of labour market analysis for different geographic areas. The report provides projections for detailed geographic breakouts and finds that Canada's labour force will become:

> "increasingly heterogeneous across the country by 2036. Many metropolitan areas may see their labour force continue to grow, with a slower decline in the number of people in the labour force for each person not in the labour force, and a sharp increase in ethnocultural diversity. However, several non-metropolitan areas may see their labour force decline in the coming years and may maintain a low level of ethnocultural diversity. In some cases, the ratio of the number of people in the labour force for each person not in the labour force could even be less than two to one."
>
> "In this context, these projections show that labour force issues in Canada are expected to become increasingly regional, as labour demand also affects the demographic evolution of regions. This situation may pose challenges, particularly in terms of regional and sectoral labour shortages, and the maintenance of services for specific services."

As discussed at length above, retirement ages are increasing quite rapidly. That is, the gains in labour supply from older workers are already being realized to a considerable extent in the absence of corresponding changes in the age of eligibility to pensions. The policy question is the extent to which increasing the pension age – i.e., the "standard, central" age of eligibility to pension benefits – would further increase labour supply.

As indicated in Chart 7 in the last section, there is a clear drop in employment rates at age 65, the age of most pension eligibility. However, most people do retire at other ages and the peak at age 65 is considerably lower than it was in the 1970's where pension ages and median ages both centered on age 65. On balance, higher pension ages are likely to result in some increase in the supply of labour among older workers, but the effect could be modest at least initially.

New projections confirm that fiscal concerns are manageable

The new projections confirm our earlier, but cruder, analysis that there is no large fiscal crisis looming on the horizon as a result of population aging. However, population aging will likely remain a source of continuing fiscal pressure, since the increasing participation rates of older people are unlikely to completely offset the effects of population aging. That is, the number of people not in the labour force is still likely to rise as a percent of those who are in the labour force. However, it is a manageable pressure and one that occurs gradually over time. It simply joins the large set of fiscal pressures that must be routinely balanced in the process of managing public finance.

Treating intergenerational fairness within a single program is unhelpful

Similarly, the question of whether different generations are pulling their fair share in financing public programs remains a real issue, but not one that needs to be, or should be, addressed in isolation in a crisis mode. Intergenerational fairness is properly seen as a consideration along with many others – such as inequality and intra-generational transfers such as those between people at different income levels, or between men and women – in examining possible reforms.

When we move out of crisis thinking it also becomes clearer that achieving a range of equality and fairness goals can be best met by looking at the full range of government programs, and not addressing the topic on a program by program basis. It reminds us that the quite successful system of public pensions that exists in Canada was not pre-funded by participants and indeed, because it was funded out of current government revenues, greatly benefited the generation that preceded the boomers who received pensions to which they were not full contributors. It did however allow much space for fully funded workplace pensions in the private sector and for individual retirement savings.

The environmental mess that the one generation leaves for another completely swamps any discussion of generational fairness within pensions. The technological legacy, such as computers and the technologies associated with the information age, that one generation inherits from another must also enter the intergenerational fairness calculations.

As well, generational transfers within families (including support for house purchases, grandchildren's education, inheritances and delays of young people leaving the parental home) must be taken into account in examining intergenerational transfers in public finance. Should the public sector attempt to compensate for generational imbalances in families?

There is much misunderstanding of these intergenerational topics, including the extent of the problem or even if there is a problem at all. The last section reported on some quite positive findings when comparing boomers with generation Xers and millennials. Some widely held assumptions that things are getting worse across generations may need to be revisited.

The recent CPP reform exercise illustrates the perversity of assuming that each program must be generationally 'fair'[16]. These reforms were directed to the problem of potentially inadequate pension incomes, mainly for those without a workplace pension. Reflecting the prevailing fiscal concerns related to population aging, the program design that was finally chosen assumed that the new program would be pre-funded (as was also proposed in most of the alternatives that were considered), with each generation paying in advance for its own pension benefits. That in effect means that the reforms will only be fully felt some 40 years in future. As was discussed earlier, the 'solution' to a problem that will arise over the coming decade or so has been postponed to the distant future, when many other social and economic changes make sensible projections hazardous. So, if the alleged problem of inadequate pensions is real, then quite another solution will need to be found well before 2060.

The point is that it makes no logical sense to address pension issues, including the merits of pre-funding, in terms of intergenerational fairness. These issues can only be sensibly addressed at a higher level when looking at public finances as well as at private behaviour as a whole.

A similar issue of generational fairness was discussed earlier in the context of whether public pensions should ensure that living standards of seniors, particularly older groups among

[16] Michael Wolfson's 2013 paper, discussed in Section C, elaborates on this issue and presents an alternative reform design where the CPP reforms would come into effect much faster, with the additional public cost being financed by increasing the age of eligibility for the new benefits.

seniors, should keep up with the living standards of current working age people by means such as automatic wage indexation, in addition to existing price indexation. It could be argued that it might make more sense to address this generational issue at a higher level that included a range of health, housing and long-term care policies in addition to retirement income policies. Some argue that doing so would encourage welcome tradeoffs among the programs in question, allowing room to increase budget allocations for some programs more than others. This would, in turn, suggest the use of periodic reviews and ad hoc program adjustments rather than building automatic wage escalation into pensions. On the other hand, built-in escalation formula would add a level of certainty to retirement planning.

Regardless of the outcome of this more theoretical discussion about the best level at which to address generational issues, it is important that pension reform agendas be shaped in a way that avoids pensions being seen as fostering intergenerational unfairness and consequently becoming an unwarranted target for those who care deeply about the broader issue.

The new multiple win approach based on packages of reforms

Reforms that raise pension ages are, therefore, difficult to justify using traditional labour supply and fiscal arguments. The questionable benefits are likely to be outweighed by the losses that would, as discussed below, occur among those who are most vulnerable in society. The result can be a standoff, with no action taken on reform of pension ages. For example, the Harper government planned to raise the age of entitlement to OAS and GIS benefits. When elected, the subsequent Trudeau government cancelled those plans based on their research which showed the negative effects of such an increase on low-income people.

The situation is a little different in other developed countries where there have already been many reforms to increase pension ages. There is now a debate[17] about ways of offsetting the resulting losses in wellbeing for many vulnerable people while also recognizing that increased labour market participation is based on many factors in addition to pension age reforms. In Canada we still have the luxury of a few years' time to have this debate before action is needed to increase pension ages.

A more productive and realistic, if admittedly more complex, way of framing the policy discussion about raising pension ages would be one that:

- Develops alternative packages of reform that, in addition to raising pension ages, address a range of other retirement income issues that were identified in the last section, as well as ensuring that there were few, if any, losers from the pension age reform. There is also potential to go beyond the retirement income system and address other issues of importance to seniors such as those that relate to the provision of long-term care.
- Recognizes the social and economic wellbeing at the individual level that can result from the increases that have been occurring in the time that is spent in work, as well

[17] See The EXTEND project: Exploring pension reforms, work, and inequalities for a European assessment.

recognizing the further gains that would be possible if normal pension ages were to catch up with these trends to later retirement.

- Recognizes that a non-decision, i.e., not taking action to bring pension ages more into line with actual retirement ages, could also have negative consequences in the form of an unintended increase in the income of people with good jobs as well as growing inequality among seniors.

Increasing individual wellbeing by bringing pension ages into line with retirement ages

A common element in all the reform packages would be an increase in the normal pension ages that would be introduced gradually and with advance notice. Note again that this would involve changing the ten-year *range* of pension ages which now centres on 65 to a range that would centre on a higher anchor point, such as 68.

Box 4 provides a greatly simplified example of how reforms that result in a shorter duration of retirement (and a shorter period of time in receipt of pension benefits and a longer period of working life in which to make pension contributions and build retirement savings) can have positive results at the level of individuals. Basically, many will experience increased living standards, either during working life through a reduced need for pension contributions or as a result of higher income during the shortened period of retirement. As noted in the box, this simplified example exaggerates those benefits by assuming, for example, that increasing age of eligibility would be associated with an equal increase in actual retirement ages. The potential for gains is nevertheless real, even if it is only achieved gradually and indirectly.

It is important to underline that these gains set out in Box 4, while they may only be indirectly felt and are hard to quantify, are nevertheless potentially large and can be used in alternative ways. Choices must be made, but they are mainly good choices. A shorter duration of life during which pensions and retirement savings are the main income source will, if we maintain the same replacement rates, result in a significant reduction in the cost of pensions and/or less need for retirement savings during working life.

There are many alternative ways of reallocating the savings that result from this reduction in the cost of providing retirement income. At the level of individuals, the money freed up by the lesser need for pension contributions and retirement savings can be simply used to increase living standards during working years, or to save for asset purchases such as a house. Or individuals could choose to continue to save the same amount as before in order to finance a higher living standard in retirement. Alternatively they could continue to save in the same amount in order to finance time off work prior to the new pension ages -- either immediately before (i.e., if they choose to keep the same duration of time spent in retirement as before using means that are discussed further below) or to finance time off work during traditional working years for care rearing, or learning, or longer vacations, or other purposes.

These gains in higher living standards and increased choice will be felt by many people, but those who will gain the most are people who are in good health, have the skills needed to work longer, have access to good jobs, and enjoy working, including the social interactions that are

Box 4. A simplified example of why many people could be potential winners from an increase in retirement ages

Let us examine the greatly simplified case of a person who starts his career job at age 25 and works 40 years before retiring completely age 65. He spends 20 years in retirement and dies at age 85. He lives alone and has no other income except his salary while working and his pension while retired. Let suppose that his final salary is $80,000 and that his pension (a collection of different pension and tax arrangements in reality) is designed to replace 70% of that. This comes to $56,000 annually or $1,220,000 over the course of the 20 year retirement.

For purposes of this simple example, we assume that the needed $1,220,000 is financed on a completely funded basis throughout the person's working life. If we ignore the realities of inflation, of present discounted values and the existence of variations in earnings over one's career, this means that there would need to be an average pension contribution of $28,000 from all sources in each of the 40 years of working life.

Now let us make the heroic assumption that reforms take place such that age of entitlement to all pensions is raised by 3 years to age 68 and the individual in questions quickly adjusts his own behaviour in consequence and now retires at 68 as well. If we assume that reforms are made in a way that maintains retirement income at 70% of final earnings, then the total income over the now 17 years of retirement is $952,000, or some $168, 000 less than before the change.

There are now 43 years of work to finance this $952,000, for an average annual contribution of $22,140 or some $5,860 (or 21%) less than before. If pension contributions came entirely from the individual in question, net income after pension contributions during the working years would increase by $5,860 annually – a significant increase in living standards during the person's working years. Of course, in the real world, employers and governments also finance pensions and the gains, still very large in total, would be spread among them.

While there would be many constraints in practice, in theory there are many alternative ways of spending the savings of $168,000. They could be, directly or indirectly, reallocated to:

- Increasing the size of benefits in retirement, rather than reducing contributions. Complete reallocation to this purpose would add $9,882 in each year of the now reduced years in retirement, resulting in a significant increase in the replacement rate to 82% of prior annual earnings and a consequent increase in the standard of living of retirees.

  This is similar to a recent proposal, Retire Later for Greater Benefits, by the Canadian Institute of Actuaries which calls for increasing the age of entitlement and using the savings to increase the size of the retirement benefit.
- Funding three years additional of time away from work during the course of working life for learning, or leisure, or family care giving. This could be financed by the individuals and from governments and employers who, in this example, would use their share of the savings to subsidize this time away from work.
- Provision, by governments, of the additional added costs of supporting low-income people, especially those who cannot work longer and who otherwise would lose by the shift to later pension eligibility. This would require only a small portion of the potential savings, depending on the nature of the reform.
- Be used for purposes other than those related to the retirement income system such a reducing the wage costs of employers, reducing government deficits and helping individuals pay off mortgages.
- Some mix of the above.

That is, the individual would be further ahead, either by higher standards of living in either work or retirement and greater flexibility in making life choices. The gains would be less obvious, of course, to the extent that government directed its savings in ways that did not directly benefit the individual. And of course, the gains would be largest for those who enjoy working and who have the health and skills to continue working longer.

Of course, the real world is far more complex than in this example. As described in the text, a 3-year increase in pension eligibility may not result in a 3 year increase in work. There are many different pathways from work to retirement. Most people do not live alone. Many inter-related programs and tax measures make up the retirement income system with different designs, including those that are not fully funded. Many could not be changed quickly and many reforms should be introduced gradually. There is already flexibility with respect to retirement ages in the CPP/QPP and in private pensions.

Nevertheless, the example makes it clear that, if reforms did indeed result in significant increases in the age of retirement, the consequences would be both large and positive for many, although in some cases achieved only indirectly and gradually. It also emphasizes that many desirable outcomes would be possible, and that governments would need to make choices among them.

associated with work. Such people tend to be better educated, have higher incomes and more wealth. They will suffer few, if any, negative individual consequences from working longer. As well, because they tend to do benefit most from a strong economy, they will be the disproportionate winners from the improved fiscal and labour market payoffs that are traditional justifications for raising pension eligibility ages, namely fiscal savings and increased labour supply. However, for reasons discussed above, these fiscal and labour market gains can be exaggerated and should be treated only as a side benefit of reform.

Reform options. The companion paper discusses some of the issues that would be involved in introducing reforms that would raise the ages of eligibility in the CPP and QPP, in the OAS, in workplace pensions, in tax-supported individual retirement savings plans and in a range of tax measures originating in both orders of government. Obviously, this will be a difficult challenge that could not be implemented quickly. Again, this is a key rational for an approach based on consultation on optional approaches.

The only observations that we make in this paper is that The Wolfson proposal[18] for CPP reform should be on the table at least for use as a benchmark for assessing other proposals. The various proposals (referred to in Box 4) made by the Canadian Institute of Actuaries for increasing the pension ages in a range of public and private pensions is also a useful starting point, although their proposal presently assumes that the savings from each program be entirely devoted to increasing living standards in retirement, where our proposal suggests that other forms of reallocation also be considered.

Improving the situation for those who would lose if the only reform were an increase in pension ages

A second common element in all reform packages would be provision for those who would otherwise lose from increased pension ages.

People will be worse off if they have to continue working longer in poor-paying jobs with bad working conditions and that are physically demanding, insecure and stressful – or if they lack the skills and health to continue working and must rely for longer periods of life on social assistance and other supports that are more intrusive and less financially generous than pension benefits.

Many of these lower-income people would face a double hit by a shift to later pension ages. Not only would they have to work longer, their life expectancy in retirement tends to be shorter than that for people with higher incomes and educational levels[19]. That is, the portion of their

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[18] The CPP and QPP might be reformed along lines that Michael Wolfson proposed in a 2013 study, Not-So-Modest Options for Expanding the CPP/QPP, for increasing CPP benefits at an accelerated pace, to be financed by raising the age of entitlement by 3 to 5 years and, at the same time, introducing a 'tilt' in replacement rates such that lower income people with higher mortality rates would not be penalized.

[19] Based on a half century of administrative (CPP) data, a paper by Milligan and Schirle, The Evolution of Longevity: Evidence from Canada, finds that the gap in life expectancy between the lowest and highest earners is about 8 years for men—an 11 percent difference in lifespan. For women, the difference is 3.6 years. Gains in life

entire life spent in retirement with its comparatively higher living standards would be much less than enjoyed by their higher income counterparts. Their economic wellbeing across the whole lifecourse would diminish**.**

It is more than just income security. Box 5 shows that people over 65 are happier than younger people quite apart from income levels. This suggests that an increase in age of pension eligibility could mean that those who are most vulnerable in our society would have fewer years to spend at the stage of life where both income and life satisfaction is highest.

Box 5. Older people have higher level satisfaction, independent of their income

Statistics Canada's 2016 General Social Survey found that:

- Seniors are more satisfied with their lives than those i*n* younger age groups. Among seniors, life satisfaction increases with age.
- Seniors are particularly satisfied with their safety, the quality of their local environment and their relationships with others. They were least satisfied with their health.
- A question on family income did not show any relationship between income and satisfaction – perhaps reflecting the importance of assets and savings or perhaps reflecting the existence of a basic income floor among seniors. However, in answer to another question, retired individuals who stated that their retirement income was insufficient had lower life satisfaction scores than those who reported sufficient retirement income.
- More than 80% of seniors reported that they 'always' or 'often' had someone they could depend on to help when they really needed it. Seniors who were in this situation had higher levels of life satisfaction.

Source: Life satisfaction among Canadian seniors

More research would be needed to determine the number of people who would lose and would need to be compensated. For example, the numbers would depend on future labour market trends including changes in demand for people with lower skills and changes in working conditions that make it easier and more pleasant to work longer. However, a good starting point would be to provide compensation for those low-income people who currently receive the GIS.

It might be argued that the losers should include people at all income levels who work longer for reasons of economic necessity, but who would otherwise prefer retirement to working longer. A Statistics Canada paper by Hazel, Reasons for working at 60 and beyond, reports that a 2018 survey found that about half of people 60 and over who worked, or said they wanted to work, did so for reasons of necessity (paying for essential expenses, not yet eligible for a pension, supporting family members). The other half – both men and women – said they worked longer, or wanted to do so, out of choice (paying for desirable items like vacations, liking to work, staying engaged, or not ready to stop working)[20].

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expectancy have been approximately equal across the earnings distribution. This is contrast to the United States where the gap in life expectancy has been growing.

[20] Overall higher educated people were a little more likely to work out of choice (likely as they have better earnings, wealth and pensions). The self-employed were more likely to work out of choice than were employees. The balance between needing to work and wanting to work changes as people get older. Some 60 percent of

In reality such losses would be more perceived than real. Note that the present provisions to retire earlier than normal pension age at an actuarially adjusted rate would remain. And, as discussed above, higher income people could use the funds that they would save from reduced contributions in order to supplement the reduced pension income that would result from taking an early retirement. However, this would be difficult to explain in an easily understood way since the effects would be indirect and would only take place gradually, as would the increase in pension ages. This is an example of the usefulness of having consultations based alternative packages of reforms where impacts are clearly set out.

Reform options. The companion paper discusses reform options. Here we note that the simplest approach would be to exempt GIS recipients from the increase in pension ages. This could be done by having the GIS and associated benefits[21] continue to start at age 65, as opposed to the new, higher pension age that would apply more generally. There is already a precedent for having a lower eligibility age for some benefits. The allowance for those married to GIS recipients currently provides benefits to recipients between the ages of 60 and 64.

The goal, however, is not only to avoid losses but also to make things better. One way of doing this might be to extend the basic income concept to a greater number of people by gradually lowering the age of eligibility of the GIS benefits to age 60 (the ages where the spousal and the survivors allowances are now payable.)

Another approach would be to address root causes and augment employability programming for older workers such as skills retraining or literacy upgrading, with emphasis on lower-income and lower-skilled people. This would provide some older workers with the skills to work longer in better jobs.

A similar option would be to lessen the work disincentives that are now associated with GIS and related programming. A start in this direction was announced in the 2019 federal budget. Further moves in this direction could be considered.

Proposed reforms directed to other issues related to retirement and seniors

Section C outlined a number of areas where other reforms could be included in various reform packages:

- Improving the retirement income situation of immigrants, unattached people and further steps to improve the situation of those without workplace pensions, especially during the 40-year period before the recent CPP changes come into full effect.

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people in their early 60s worked out of necessity. Likely reflecting the receipt of pensions, only 40 percent worked out of necessities when they reached their late 60s and this fell to 29 percent for those 70 and above.

[21] Including the so-called super GIS which is received by those receiving partial OAS who are eligible for GIS. GIS is in this case supplemented by the missing OAS.

- Improving the situation in the oldest groups of seniors, including a consideration of options that reallocate some of the savings from reduced pension benefits to long-term care programming.
- Addressing the gap between the incomes of seniors and workers by increasing the size of OAS benefits, either through wage indexation or through a regular review and ad hoc adjustments. The companion paper discusses some of the negative consequences of past reforms where increases have gone to the GIS supplement rather than the main OAS base.

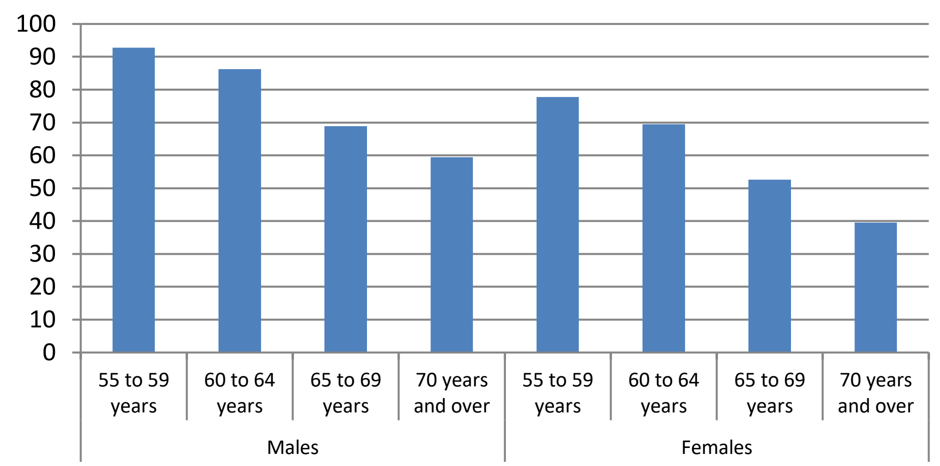
Without increases in pension ages: an unwarranted jump in retirement income and increased inequality

The packages of reform options should include comparisons with a 'no change' reference option where no reforms are introduced. This would not only provide a point of comparison. It would also clearly show that problems will arise in the absence of reforms to bring pension ages into line with retirement ages.

Income smoothing is one of the two objectives of the retirement income system. The goal is to provide living standards during retirement years that do not fall compared with those in the years before retirement.

Yet unless pension ages catch up with actual retirement patterns, a large and growing portion of the population will be retiring well after the age of pension eligibility. Most will be receiving both earnings and pension income. Some of those earnings will be modest based on part-time work. However, as can be seen in Chart 9, many will also be working full-time often at peak life-time salaries, as well as receiving a pension.

Chart 9. Proportion of employees working full-time, older age groups, 2018



Source: Statistics Canada *Table:* 14-10-0327-01

In other words, a significant and growing number of Canadians will see their incomes and living standards rise after the age of 65, in some cases quite sharply, only to fall again when they finally do retire.

Alternatively, people could defer receipt of pensions such as CPP and put other pension income into savings while they are working. In this case, the increases in living standards will occur later when they do retire.

Once again, the winners will be people who can work later in life, who have good jobs and who enjoy working. More marginal people without good jobs may not lose directly from a failure to increase retirement ages, but they will not enjoy the benefits of combining pension income with high earnings.

An unintended jump in many peoples' incomes, mainly when they are between the ages of 65 and 70, might not seem to be a big policy headache. However, it does mean that the retirement income system will cost more than is necessary to meet its earnings replacement objectives, with the unintended benefits going to those who are already better off financially. Income inequality among seniors may grow in consequence. That is, the income gap could grow considerably between those people with higher earnings and good jobs as well as pension income and those people who cannot find decent paying work in their older years.

In other words, the more vulnerable who would lose through an increase in pension ages would also lose, at least in relation to other seniors, by a failure to increase pension ages.

Observations on reform packages and public consultations

The concept of packages of reforms is not new. The importance of taking action on more than one front can be seen in the OECD's 2018 Economic Survey of Canada. That report builds on the experience of many countries in providing an authoritative review of the full range of economic issues facing Canada together with, in this issue, a special focus on issues of social inclusion of women, youth and seniors. In this context, the OECD recommends, among its top priorities, that Canada should raise the eligibility age for public pensions *accompanied by* employability measures that allow people to work longer and more productively.

Big consultations around broad reform packages are uncommon. Canada once had a tradition of green and white papers, of Royal Commissions and the like. Many major studies related to retirement income, including those that involved research and public consultations, took place in during what is known as 'the great pension debate' of the late 1970s and early 1980s[22].

Such big studies have fallen out of favour, perhaps in part because they are most suited to dealing with big policy issues, while the main attention in recent decades has been more focused on incremental changes**,** and on a program by program basis.

Nevertheless, the challenge presented here, which involves coordinated program and tax reforms by both orders of government as well as changes to private pensions, suggests that a broader consultative process would have merit. One could imagine, for example, the different levels of government agreeing to establish a high-level body to undertake the task of

[22] Including the federal Lazar Report (*The Retirement Income System in Canada: Problems and Alternative Policies for Reform)* and the Frith Committee Report (*Parliamentary Task Force on Pension Reform*), and a Royal Commission in Ontario (The Haley Report).

developing alternative reform packages and overseeing a consultation process based on them. Other less prominent approaches are, of course, possible and perhaps more likely in today's policy environment. However, such a high-profile approach would, if it proved feasible, likely be the most efficient way of gaining consensus on future directions.

Consultation is needed to build understanding. Developing and assessing alternative packages of reforms provides important room for compromise and eventual consensus. However, the retirement income system is extremely complex and, likely the only way of building the understanding that is a perquisite for such a consensus is through concrete examples that show how different reforms would play out in practice: who would gain and why losses have been averted.

Building understanding is a particular challenge since reform proposals at the level of the retirement income system as a whole have been rare. For many years reforms have been considered only on a program by program basis, ignored the hugely important, but complex, interactions among the components of the system. We lack a broad constituency that is knowledgeable about the system as whole.

Finally, the importance of the dramatic trend towards working longer, and how that relates to pension ages, is simply not well understood by the public, or even by many expert commentators who still cling to outdated population aging rhetoric. Its effects would be best seen by providing practical examples.

Box 6. Pensions: A top social priority in Canada, where reform can be based on trust

The OECD's 2018 cross-national survey, Risks That Matter, compares adult perceptions of social and economic risks, and needed government responses, in 21 counties including Canada. It found that:

- When looking beyond the next decade, pensions are by far the most common concern for Canadians, as they are in every country surveyed. 67% of people in Canada list "financial security in old age" as a top three long-term risk, followed by worries that they will not do as well in life as their parents and ensuring the long-term care of family members.
- Given a range of policy areas, Canadians are most likely to want to invest in pensions: 45% of Canadians say they would increase spending on pensions, even if it means taxes will rise or some other programs may be cut.
- Compared with other countries more Canadians (34%) feel they could easily access public benefits if they needed them.
- Canadians are also cautiously optimistic about their political voice, relative to people in other countries. 45% of Canadians feel the government does not incorporate their views (or the views of people like them) when designing or reforming public benefits – a lower level of skepticism than in every country except Norway.
- Most people in Canada want more support from their government. 57% say that government should do more to ensure their economic and social security, and only 5% say government should do less.
- There is also strong support for anti-poverty policies. 69% of Canadians say that the government should tax the rich more than it currently does in order to support the poor – slightly above the cross-national average level of support for progressive redistribution.

Consultation and phased introduction are needed to maintain public trust. Public trust is an essential ingredient in the success of retirement income systems, which play such a central role in people's wellbeing over long stretches of their lives. Many of the elements in our reform package, which is admittedly unusually complex, risk being taken out of context, overly simplified and demonized.

Box 6 reports on the results of recent OECD survey which showed that Canada is in a particularly favourable position with respect to trust in pensions and social policies more generally, including anti-poverty programming. It would be a huge mistake to take steps that inadvertently undermined our comparative advantage here.

This, once again, suggests a broad consultation process based on costed packages of reform with the effects of each package in terms of gains in social and economic wellbeing being clearly identified. It also implies advance notice before reforms come into effect and, in some cases, gradual implementation.

A big obstacle: lack of analytic capacity. Developing, costing and assessing alternative packages of reforms would not be simple in practice. As noted in the final section, the analytic capacity at least in the federal government has improved considerably recently. However, it would almost certainly have to be further augmented, at least temporarily, in order to support the kind of consultative approach being proposed. As discussed in the next section, doing so would also strengthen the ongoing capacity.

E. Strengthening the capacity for analysis and monitoring

Analytic capacity

In this final section we underline the need to strengthen our data and analytic capacity to develop evidence-based policy options at the level of the retirement income system taken as a whole. As the earlier sections have shown there is much that we do not know and there is certainly no existing capacity that would allow us to quickly put together the kind of costed and assessed packages of reforms that form the basis of our proposed reform strategy.

Our Experts Panel on Income Security has already provided advice on how to strengthen the needed data and analytic capacity in two 2017 papers on the subject.

- One of these, The Grey Tsunami Threat: A Failure of Evidence to Drive Policy, focused on analysis related to seniors and retirement. It stressed the importance of supplementing existing cross-sectional data with longitudinal data. Doing this would help avoid the ambiguities described in Section B about using age 65 as the common dividing line between work and retirement/pension receipt when, in reality, there are multiple, diverse trajectories that people follow in moving from the labour force into full retirement and from having earnings as a main source of income to having pension as the main source. The Grey Tsunami paper also warned against overuse of averages, particularly when looking at large diverse groups such as retirees. Averages can hide more than they reveal. Box 7 summarizes what was said on this subject
- The second of these papers, Upgrading Social Policy Research expanded on the data and analytic capacity that is needed to undertake good empirical analysis, not only in the area of retirement income, but in social policy more generally. Box 8 summarizes some of its conclusions.

Interested readers can consult these papers, particularly the *Upgrading* paper for more information on ways in which the system can be strengthened. In this paper we will simply let Boxes 7 and 8 speak for themselves -- with four additional observations.

First, our earlier papers do not say enough about the importance of a geographical perspective. The new Statistics Canada labour market projections discussed in Section B make it clear that this is an important topic in looking to the future development of the retirement income system.

Second, there have been several positive developments since these papers were drafted only two years ago. We then argued that the existing capacity was not only weak, but that it had been deteriorating. We now see what appears to be the start of a turnaround:

- Employment and Social Development Canada has decided to strengthen its longitudinal microsimulation capacity. That capacity could be devoted to rich, new analysis at the level of the retirement income system as a whole.

Box 7. Beware the mean

Analysis based on averages for large groups of the population, such as seniors or retirees or pensioners, runs the risk of providing policymakers with a pinhole view of the diversity of the real world.

An overall average can dramatically hide real policy challenges faced by different sub-groups in what is, in fact, a highly diverse community. For most people, including seniors, these include characteristics related to health and disability, assets and various sources of income, family and social networks and supports, active and passive leisure, the extent of care-giving and receiving, skills, and work experience in earlier life including, for seniors, the pathways from work to full retirement.

Changes over time in cross-sectional data (i.e., data that measure average characteristics at a sequence of points in time) can tell an important part of the story but only if they are provided for relevant subgroups of the population. For example, when looking at seniors as a whole we see that, on average, there is less poverty among seniors than among other age groups. This is true on average and speaks well of our retirement income programs. However, it can lead to complacency.

- While older people do well on average, there remain important groups of older people, such as those living alone and/or with disabilities, whose income and other supports in retirement are often not adequate.
- Other groups may receive more support than is warranted, such as subsidised services for seniors with good incomes or those who experience poverty for only a limited period in old age.

What is needed is good longitudinal analysis (that follows a large representative sample of people over time) to determine the extent of these issues for people with different income, work and family histories.

To be clear, policymaking which is based on evidence about the average results for large population groups is better than policy that is not based on any evidence. However, the results are far better when those averages can be broken down to smaller population groups that face particular challenges, and when the dynamics of the experiences of diverse individuals within these groups can be understood, i.e., via analysis of longitudinal data.

In the future, policy analysis should reflect not only the kind of cross-sectional analysis based on the single data sets that dominate policy analysis today, but also the kind of much richer, multi-level, longitudinal, microanalysis analysis that is based on big data sources.

These analytic approaches can significantly augment existing tools, especially in ways that allow us to dig past the broad averages and address policy issues from a more realistic perspective – one that gets nearer to the actual diversity that marks the lives of real people. In addition to the need to develop these new data sets and analytic tools, there are also many gaps that need to be filled in existing cross-sectional data.

However, we do not need to wait until a new capacity is developed, or for gaps in cross-sectional data to be filled. Existing data sources allow far richer cross-classifications of the population than is actually used in much current policy analysis, as is readily seen by the failure to notice the importance of changing employment patterns among older workers.

The key message is the importance of acting now to put in place the data and analytic tools that will be needed for proper analysis of options once the issue of retirement ages is back on the policy agenda, as it inevitably will be. These include filling existing gaps, developing new longitudinal data sets, developing the tools needed for longitudinal microanalysis covering all dimensions of the retirement income system and the way in which schooling, work and retirement are changing over time for people with different characteristics.

The key point is that analysis which moves away from broad averages and takes us nearer to the diversity that actually exists in the lives of older people, including the diversity in their pathways from work to retirement, is likely to lead to quite new insights and much better support to policy-making. The other side of this assessment is that we should be wary of the conclusions reached by much existing analysis, even from authoritative sources.

Source: Taken directly from The Grey Tsunami Threat: A Failure of Evidence to Drive Policy.

Box 8. Shifting to individual-level analysis that follows people over time

Weakness of traditional policy analysis

Traditional analysis typically examines cross-sectional data about the average characteristics of people in different sub-groups of a population. It is typically based on a single data source such as a survey. This approach has weaknesses when:

- Examining problems that have multiple causes and involve real-life diversity with changing characteristics over time.
- Taking account of the longer-term changes in behaviour that could result from policy changes.
- Examining the combined effects of changes in different programs - including their interaction with other income transfers and the personal income tax.

Important problem areas such as low income typically involve a complex of causes including, for example, loss of a job, lack of skills to find new work, loss of work by another family member, sickness, or the need to care for family members. In these cases, it is difficult to construct the population subgroups that are needed when using conventional repeated cross-sectional data sets, even when these data are collected on a regular basis with consistent data elements over time. And, in the case of the retirement income system, much of the needed data is missing.

There are useful analytic tools such as different forms of regression for exploring the relationship among these different characteristics at different points in time, but it is often not possible to construct clearly defined, mutually exclusive groups whose average characteristics can be tracked over time.

To understand the longer-term need for, and effects of policy changes, it is also important to have evidence on how things change over time at the level of individuals. In the case of pensions, for example, deeper understanding will come from data on when particular individuals enter the paid labour market after leaving school, on their employment history (which allows us to better understand the circumstances in which they can contribute to both workplace and public pensions or save for retirement and how they build and lose the skills needed to work longer) and data on their income and expenses during the often very long periods of life spent in retirement.

It is this kind of individual-level lifecourse evidence of how things change over time that enables the painting of more realistic pictures of the actual needs and capacities of a highly diverse population, and in turn enables assessments of how different combinations of government interventions are likely to be most effective

Potential solutions

- The collection of data from longitudinal surveys and administrative sources where the same individual is tracked over time. Potentially powerful microsimulation tools that can embody and draw out the implications of increasingly powerful “big data analytics” methods applied to these longitudinal data derived from multiple sources have been available for many years, but their use has waned in policy applications.
- It involves integrating information across domains – to support evidence-based policy for the increasing gamut of “horizontal” policy issues – and to do so in a way that differences across individuals and families can also be readily studied.
- Multi-program solutions: in policy areas such as retirement income, many factors influence outcomes, including a broad range of income support, service provision and tax programs of all orders/levels of government. Often complex problems are best solved through co-ordinated changes to a number of different programs. Once again, microsimulation techniques are the best way of keeping track of the combined effects of different programs.
- Measuring outcomes: in an ideal world, this kind of analysis would use a standard logic model approach in describing program interventions. That is, it would keep track of the input costs of different programs and relate them to the immediate outputs of those programs and, as well, to a range of higher order outcomes that are achieved as a result of the combined and often jointly interacting effects of various programs. Data sources are not yet in place to do this in a comprehensive fashion. However, over the medium-term, big data techniques using administrative data show much promise. Work is underway in utilizing these administrative data bases in a number of centres e.g., Statistics Canada and several university-linked institutes, though predominantly in the health area.

Source: Taken, with minor edits, from Upgrading Social Policy Research and Advice

- Statistics Canada will regularly conduct its Survey of Financial Security.
- The new labour market participation projections will be most helpful.
- As well, the preceding sections of this paper were able to draw on a number of important recent studies some by Statistics Canada officials, and many using Statistics Canada data in creative ways.

Things seem to be getting better. That is most promising. Nevertheless, there is a long way to go before many of the complex issues described in this paper can be addressed based on sound empirical evidence.

Third, if the suggestion in the last chapter to establish a high- level body to oversee consultations based on alternative reform packages were accepted, that body would have to assemble a strong analytic team drawing on existing expertise in and out of government. That capacity might provide the core of an even stronger ongoing capacity, again both in and out of government.

Fourth, a top priority should be developing the capacity to answer basic questions about retirement decisions, including the questions about changing pathways to retirement that were raised in Section A. This will require the use of microanalytic tools which, happily, are now being strengthened.

Ongoing monitoring

There is currently no publicly visible process in place for ongoing monitoring and associated policy analysis at the level of the retirement income system as a whole. As noted earlier, we do not even routinely monitor such basics as the extent to which the system is meeting its fundamental goal of maintaining living standards during retirement.

Much population-based research, whether undertaken by governments or academic researchers, addresses topics on an ad hoc basis and is only infrequently updated. We are far away from having an approach that systematically identifies research priorities across the entire Retirement Income System, let alone one that funds such research.

Most policy analysis is now at the level of the specific programs that comprise the retirement income system. We have, for example, well-designed and effective ways of monitoring components of the system such as the ongoing CPP and OAS actuarial reports. Yet, as described in detail in the companion paper, the programs and tax regimes that comprise the system interact with each other in ways that make a big difference in terms of their combined impacts. The companion paper refers to the whole retirement income system as being in a state of continual evolution because of these interactions and because of the frequent change in the social and economic world with which it interacts. That suggests that monitoring needs to be undertaken an on-going basis, with a regular cycle of reporting.

There are many reasons for this lack of system-wide monitoring. The questions to be addressed are complex. As noted, we lack some of the tools needed to examine the combined effects of the retirement income system. Different orders of government are responsible for different programs within the system. The tax system plays a major role, along with programs. Related policy areas (such as employment and older worker policies, long-term care and housing policies) must be taken into account. As described in Section A, even finding the right time frames to conduct analysis and monitoring is tricky.

The difficulties are real, but so is the need. Vast amounts of public and private funds go into the financing of the retirement income system and it plays a large, direct role in the lives of all Canadians. It seems to make no sense that there are no institutional arrangements for routinely monitoring its performance.

We therefore propose that consideration be given to the creation of a monitoring body that:

- Regularly reviews the success of the retirement income system in meetings its objectives and identifies pressures that could result in a need to consider future changes in the programs, taxes and private arrangements that comprise the system.
- Identifies more specific reforms that may be needed and tracks progress as they are being implemented.
- Tracks a wide variety of indicators related to the impact of the present system, and to future pressures on that system. Distributional analysis would be highlighted. Indicators would be increasingly based on a strong microdata and microanalytic capacity (likely making use of the capacity now being built by Employment and Social Development Canada).
- Complements but does not replicate the existing monitoring and assessment capacity that already exists at the program level, including the CPP and OAS actuarial assessments.
- Reports highlights to the public and develops strong ties to research and other expert communities.

The companion paper makes some suggestions about ways of creating such a capacity. Interested readers might also to wish explore our earlier suggestions for building a stronger analytic capacity at the level of social policy as a whole, including institutional arrangements for monitoring (in Upgrading Social Policy Research and Advice, referred to in Box 8) as well as our 2018 paper which was addressed more specifically to the challenge of monitoring progress in poverty alleviation, Comments on Bill C-87, an Act Respecting the Reduction of Poverty.

The Council on Aging of Ottawa
Le Conseil sur le vieillissement d'Ottawa

ANNEX

EXPERTS PANEL ON INCOME SECURITY

This Panel (membership listed below) has been meeting regularly over the past three and a half years, analyzing issues affecting our pension programs and other aspects of Canada's retirement income system including tax provisions, and examining the interactive effects of the various components of the system as well as specific program designs and administrative practices.

Our Panel has developed and submitted to the federal government numerous papers on relevant policy and program issues. We have expressed particular concerns about the quality and availability of data, analytical models and relevant policy research relating to Canada's seniors. These concerns support the present government's stated priority that good government policy decisions should be based on solid evidence. For example, the Panel has been discussing with Statistics Canada their data priorities and challenges, including their program of Statistics on Population Aging and Seniors.

The group has also been communicating actively with several government departments, particularly with the Department of Employment and Social Development including the Minister, his office and senior departmental policy staff, in light of their important income security mandates and programs. Several submissions contributed to, then commented on, the government's 2018 Strategy for Poverty Reduction.

In partnership with the Ottawa Public Library, we are conducting a set of workshops on "Planning for Retirement on a Low Income," designed to assist public understanding of the programs, benefits and choices confronting lower income Canadians, and in particular those likely to be in the lower income category in their retirement years. Taxation issues along with support program rules and administration are key elements of the presentations and discussion. These workshops follow the successful model in place for several years in the Toronto area, developed by John Stapleton, one of our Panel members.

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