SENIORS AND POVERTY – CANADA'S NEXT CRISIS?

AUGUST 2017

HOOPP
Healthcare of Ontario Pension Plan

Seniors and Poverty – Canada's Next Crisis?

Why increasing DB pension coverage at work should be part of the solution

The number of Canadians over 65 is set to double by 2036 according to Statistics Canada – in fact, the fastest-growing segment of the Canadian population is made up of people over 85. As Canadians age, more of us are heading into our senior years financially ill-equipped to adequately support ourselves when our working lives end. A stark illustration of this has been set out in a slew of new statistics and studies that show poverty among seniors is on the rise once again after nearly two decades of decline.

This should be a warning sign for policymakers: without action to address gaps in the retirement income system and strengthen access to pensions, Canada faces a bleak future, with more seniors living in poverty and unable to climb out. Such a scenario will have profound consequences for the ongoing economic and social well-being of Canadians.

In this paper, we provide highlights from a growing body of statistics and research on senior poverty in Canada and its impact on the most vulnerable Canadians.

We also call on policymakers to strengthen the workplace pension system in Canada -- and to draw on the experience and knowledge of Canada's biggest pension investors to develop workable solutions. In doing so, we can truly strengthen to retirement system and collectively work together to prevent the growth of senior poverty in the future.

Part 1: Not ready for retirement

Two key shifts have contributed to the rise of senior poverty in Canada: demographics combined with the steady decline of workplace pension coverage. Canadians are living longer than ever before: the life expectancy for both men and women is now 80.2 years (77.8 years for men, 82.6 for women). The number of seniors is also growing at a faster rate than any other segment of the population -- by 2041 it is estimated that 25% of Canadians will be seniors, with those over 85 leading the way (Statistics Canada).

How will this growing cohort support themselves financially when they can no longer work? Traditionally, Canadian workers could rely on Canada's retirement system – often described as a three-legged stool made up of government benefits, workplace pensions, and private savings. Today, however, that stool is a lot less steady as workplace pension plans, once an income staple for many seniors, continue their retreat. In 1977, nearly half of Canadian paid employees (46 per cent) belonged to an employer pension plan – in 2014 that number was 33 per cent.[i]

The type of pension coverage has also shifted. Years ago most workers had a defined benefit pension arrangement, which promised a regular monthly income in retirement based on years of service and earnings. In a DB arrangement, pensions are paid for life, and, for some, even rise along with inflation.

Today, many DB plans have been closed and replaced by options like defined contribution (DC) plans or group registered retirement savings plans where members are required to manage their own asset allocation (see Table 1). Income is not guaranteed but based on how the investment selection does over time – if members make poor choices or if there is a major market event close to retirement, they bear the full risk of loss in the form of a reduced pension income in retirement.

Not surprisingly, members of DC plans aren't all that confident about their prospects for retirement – only 57% of defined contribution plan members say they are confident their pension savings will be an adequate source of income versus 82% of DB plan members (Source: HOOPP/The Gandalf Group Research).

Pension plan type	1995	2014	% change
Total DB plan membership	4,582,154	4,401,970	-4%
Total DC plan membership	518,669	1,036,747	+100%

Table 1: Pension Plan Membership, by plan type, 1995 and 2014[ii]

Part 2: CPP -- Not a Pension Plan

The other leg of the stool - government benefits – can soften the blow in retirement. But it's not enough to fill the gap left by shrinking workplace pension coverage. While the maximum monthly CPP payment is currently $1,114, the average monthly payment is only $685.[iii] Meantime, Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) together provide a maximum of just $15,000 per year for single seniors and $25,000 per year for seniors who live with a spouse. For the average Canadian, it's not enough to make ends meet.

Without adequate workplace or government benefits, Canadians are left to make up the shortfall through private savings, ideally taking advantage of vehicles like registered retirement savings plans (RRSP) and tax-free savings accounts (TFSAs). However, data consistently shows that we aren't saving enough either by choice or because we have too little left over to save after all other expenses are covered.

One in three Canadian adults is not financially prepared for retirement according to the 2014 Financial Capability Survey. Uptake on private savings vehicles like registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs) is strikingly low for Canada's lower and middle income earners – in fact, new data from Statistics Canada show RRSP contributions have steadily declined between 2000 and 2013. (Statistics Canada).

Recent research from the Broadbent Institute also shows that fewer than half of Canadians retiring without an employer sponsored pension plan have saved enough to cover themselves for a year in retirement. The same research also reveals the overall median value of retirement assets of those aged 55– 64 with no accrued employer pension benefits is just over $3,000. For those with annual incomes in the range of $25,000 to $50,000, the median value is near just $250. For those with incomes in the $50,000 to $100,000 range, the median value is only $21,000 (Broadbent Institute) (see Table 2).

This simply won't be enough to live on.

Table 2: Median Retirement Savings of Canadian Families 55–64 without an Employer Pension Plan[iv]

Income in 2011 Dollars	Income Group for the Economic Family				
	Total	Under $25,000	$25,000-$50,000	$50,000-$100,000	$100,000
Median retirement savings	$3,000	$0	$250	$21,000	$160,000

Canadians are concerned about what life will be like when they retire. Research done by HOOPP and the Gandalf Group in 2014 shows that two-thirds of people in Ontario say they're worried they won't have enough money to retire on. And many are concerned that the type of pension plan, they do have won't actually be enough to cover their basic living costs.

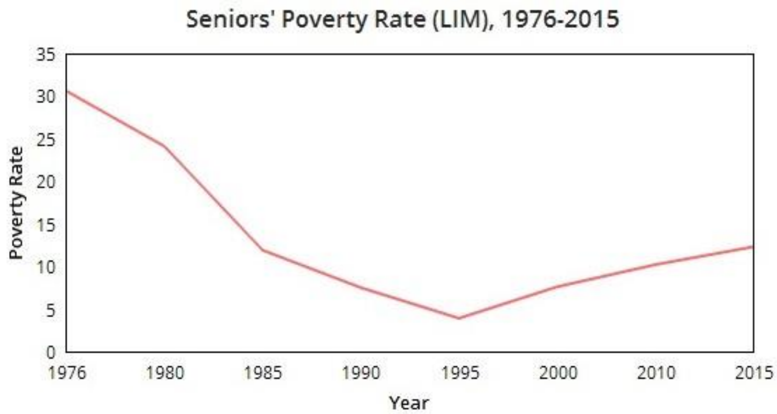
Part 3 – The rise of senior poverty

Without the safety net of hefty private savings or a stable pension income, an increasing numbers of Canadians will struggle to meet their basic living needs when they are no longer able to work. This is already playing out – poverty among seniors in Canada has increased at much faster rate during the financial crisis (2007-2010).[v]

As the number of low income seniors increases, so too does the number of Canadians who are vulnerable to poverty and unable to meet their basic living needs. According to Statistics Canada, 12.5% of Canadian seniors now live in poverty and, between 2014 and 2015, 75,000 more of seniors became low income.[vi] Seniors are also becoming low income at a much faster rate than the rest of the population according to the Broadbent Institute: while the low-income rate has actually declined among Canadians under 65, it has spiked for seniors, reversing a 20-year trend that saw senior poverty rates decline from the 1970s to an all-time low of 3.9% in 1995.

Single seniors and women are particularly vulnerable simply because they need to cover their basic living costs without any income from a spouse. According to the Broadbent Institute, 28% of single women seniors are living in poverty in Canada versus 24% for single males.

Canada's Senior Poverty Rate (Source: Statistics Canada)



The economic consequences of senior poverty

Seniors who find themselves living on a low income or in poverty can find they have no way to reverse the situation. Granted, some choose to work longer: from 1995 to 2015, when poverty rates started to increase, older Canadians began staying in or re-entering the labour force in greater numbers. From 2006 to 2013, over 300,000 more seniors joined the labour force - a 96% increase.[vii] From 1997 to 2010, the employment rate for men over 55 rose from 37.6% to 44.9% and for women it increased from 22.3% to 36.6%.[viii]

For some the decision to work longer and retire later is a matter of personal choice – for others, it's a necessity. But for many, it is simply not possible - some Canadians will find themselves incapable of working at the same level or capacity as they become more susceptible to age-related illnesses or conditions. According to Statistics Canada 89% of Canadian seniors had at least one chronic condition in 2009, with arthritis and rheumatism being the most common.

Poverty among seniors also has economic implications which will be keenly felt as numbers tick up. Seniors who lack an adequate income can't participate in activities and spending that benefits the economy – in fact, they often draw heavily on government benefits.

According to a 2013 study done by the Boston Consulting Group, benefits paid out to DB pension plan members ultimately flow back into the Canadian economy in the form of consumer spending and taxes, generating business growth and employment and generating revenues for all levels of government. For example, it is estimated that DB pension beneficiaries spend $56 to $63 billion annually on consumable goods, shelter, durable goods, recreation, services, and sales and property taxes. They also pay an additional $7 to $9 billion in income taxes, while a further $2 to $3 billion flows back into their savings. People with stable pension income are less of a drain on government benefits -- an estimated 10% to 15% of DB beneficiaries collect the

Guaranteed Income Supplement compared to an average of between 45% to 50% of other retirees who collect GIS. Overall, it was found that DB pensions reduce the annual GIS payout by approximately $2 to $3 billion annually.

Part 4 – Strengthening workplace pension coverage

Government benefits and private savings can't on their own carry Canadians through their retirement years. Workplace savings plan must also play a role in generating a healthy and stable income in retirement. This is an essential part of a healthy retirement system. Policymakers must help to lay the foundation for better workplace pension coverage – coverage that provides a stable income in retirement for all Canadians.

Canada's public pension plans can and should support the government in its efforts to build a better pension solution for everyone – and we are ready and willing to share our insights and experience whenever called upon.

To that end, we would like to share five best practices from the DB space that policymakers can look to for making progress in pension coverage right now.

Ensure adequate income replacement – Pension plan models that don't set an income replacement target won't work for Canadians – and could contribute to senior poverty in future. Income replacement should be offered to workplace pension plan members based on a percentage or pre-retirement earnings. DB models are designed to do this – and that model should be extended across all types of workplace pension plans.

Risk share – Plan members cannot be expected to bear 100% of market and longevity risk. It's simply not sustainable. A pension model must fairly spread the risk between the plan member and sponsor so that Canadians don't risk outliving their savings.

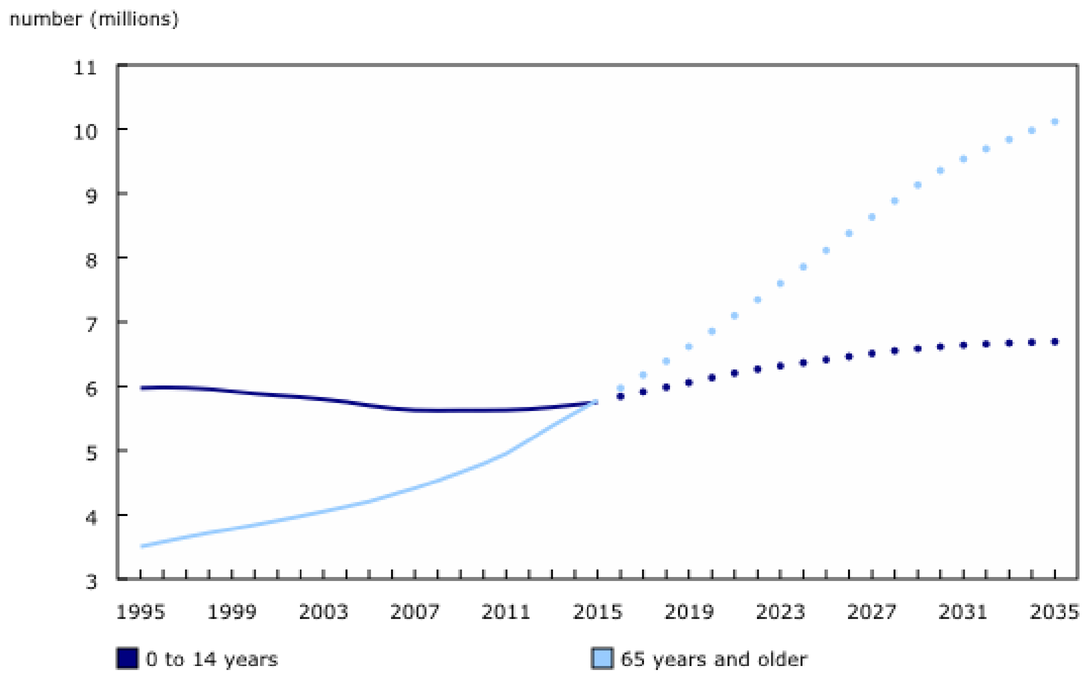
Make it automatic and mandatory - Workplace pension savings plans must be mandatory. Employers must offer them and employees must join and make automatic contributions at realistic levels.

Find ways to pool - When individual savings are pooled in one large fund and invested by professionals, investment risk is shared and reduced and costs are much lower than they would be for retail mutual funds. A pooling solution could help make DB pensions available for more Canadians.

Make decumulation easier – Canadians should have access to a one-stop option to retirement savings that leads directly to decumulation rather than leaving it up to individuals to decide how much to withdraw each year, and how to invest the remaining money so it lasts. This is key to ensuring stable and consistent income in retirement.

SIDEBAR
Canada's aging population at a glance

(http://www.statcan.gc.ca/daily-quotidien/150929/cg-b003-png-eng.htm)



Sources

i http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil117a-eng.htm

ii http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil117a-eng.htm

iii http://www.esdc.gc.ca/en/cpp/benefit_amount.page

iv https://d3n8a8pro7vhmx.cloudfront.net/broadbent/pages/4904/attachments/original/1455216659/An_Analysis_of_the_Economic_Circumstances_of_Canadian_Seniors.pdf?1455216659

v http://www.oecd.org/canada/OECD-SocietyAtaGlance2014-Highlights-Canada.pdf

vi http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=2060041&&pattern=&stByVal=1&p1=1&p2=31&tabMode=dataTable&csid=

[vii] http://www.carp.ca/wp-content/uploads/2013/12/Older-Worker-Paper-Dec-2013.pdf

[viii] http://www.carp.ca/wp-content/uploads/2013/12/Older-Worker-Paper-Dec-2013.pdf