Is there a Canadian Pension Crisis?

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Disclosures

1. This presentation is based on a meta-literature review article by Carleton University Chancellor Professor Vijay Jog concerning the Canadian pension system published by the *Journal of Public Finance and Management, 2016*

2. It also draws on an article I wrote, published in *How Ottawa Spends 2016*, that focuses on the policy and political issues in the reform debate concerning CPP.

3. I do not belong to nor donate monies to any political party

4. I do not consult directly or indirectly to any body anywhere
Former Premier Wynne, Govt of Ontario

“People are not saving enough for retirement and if we let this go unchecked we’re going to face a huge economic crisis.”, November 12, 2013
Bill Morneau (2012), now Minister of Finance

- “Crisis – what crisis? …there exist many

- *persistent myths about the Canadian*

- *retirement situation ... we think of our

- *seniors as living in near poverty when the

- *elder poverty rate is half of working Cdns*
Retirement Income System (RIS)
McKinsey, Canada’s retirement framework a balance btwn govt & individual

Provide: a basic minimum in retirement
Require: a minimal amount of savings
Influence: additional savings for retirement
Allow: freedom in retirement decision matters

Source: McKinsey Canada, Building on Canada’s Strong Retirement Readiness, 2015
Critical Background Data
CREA, Annual Home sales in Canada, 2007-2019

*Canada; seasonally adjusted
Stats Can, Average Retirement Age, 1976-2011

Part of the “problem” ie retiring too soon per OECD

Source: Statistics Canada CANSIM Table 282-0051
Figure 2.7
Demographic dependency ratio, observed (1921 to 2013) and projected (2014 to 2063) according to the medium-growth (M1) scenario, Canada.

Note: The demographic dependency ratio is the number of persons aged 14 and under or 65 and over per 100 persons aged 15 to 64 years.

Source: Statistics Canada, Demography Division.

Source: http://www.statcan.gc.ca/pub/91-520-x/2014001/c-g/c-g2.7-eng.htm
OECD, Old age dependency ratio will almost double

UN World Population Prospects, 2015
Stats Can, Income & Transfers by Quintile, 2011 (Philip Cross, MLI)

<table>
<thead>
<tr>
<th>Description</th>
<th>Lowest Quintile</th>
<th>Second Lowest Quintile</th>
<th>Middle Quintile</th>
<th>Fourth Quintile</th>
<th>Highest Quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Average Market Income</td>
<td>$7700</td>
<td>$23,200</td>
<td>$38,500</td>
<td>$57,100</td>
<td>$108,400</td>
</tr>
<tr>
<td>(2) Transfers from Governments</td>
<td>$8700</td>
<td>$7600</td>
<td>$6100</td>
<td>$4800</td>
<td>$3300</td>
</tr>
<tr>
<td>(3) Total Income (1+2)</td>
<td>$16,400</td>
<td>$30,800</td>
<td>$44,600</td>
<td>$61,900</td>
<td>$111,700</td>
</tr>
<tr>
<td>(4) Transfers as % of Income (2/3)</td>
<td>53.0%</td>
<td>24.7%</td>
<td>13.7%</td>
<td>7.8%</td>
<td>3.0%</td>
</tr>
<tr>
<td>(5) Income Taxes</td>
<td>$400</td>
<td>$2400</td>
<td>$5500</td>
<td>$9900</td>
<td>$24,600</td>
</tr>
<tr>
<td>(6) Effective Tax Rate (5/3)</td>
<td>2.4%</td>
<td>7.8%</td>
<td>12.3%</td>
<td>16.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>(7) After Tax Income (3-5)</td>
<td>$16,000</td>
<td>$28,400</td>
<td>$39,100</td>
<td>$52,000</td>
<td>$87,100</td>
</tr>
<tr>
<td>(8) Taxes Minus Transfers (5-2)</td>
<td>-$8300</td>
<td>-$5200</td>
<td>-$600</td>
<td>$5100</td>
<td>$21,300</td>
</tr>
<tr>
<td>(9) Taxes Net of Transfers as Share of Income (8/3)</td>
<td>-50.6%</td>
<td>-16.9%</td>
<td>-1.3%</td>
<td>8.2%</td>
<td>19.1%</td>
</tr>
</tbody>
</table>
OECD, GDP per capita 2011
Canada is 11th of 35 (OECD) or 195 countries (world)

Overall we are a fairly Prosperous country
OECD Comparative Analysis, 2011

- Canada’s avg GDP per capita: US$44,000
- EU-28 avg GDP per capita: US$36,237
- EU avg GDP per capita: US$38,619
- OECD avg GDP per capita: US$38,914

Canada averages 20% higher income per person than EU or OECD
Stats Can, Share of population below LICO after tax, 1976-2011

Note: Based on after-tax LICOs.
Source: Statistics Canada. Table 202-0802 - Persons in low income families, annual, CANSIM (database).
OECD, Level of income inequality, 2013
NB Canada well below OECD average

How are Canadian Elders Doing?
Canadian Elder Poverty, 1976-2011

Meredith, Lower risk, higher reward, IRPP, 2015

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OECD, Comparative elder poverty rates - above 65

Figure 2.8. Poverty rates among the over-65s
Percentage of the over-65s with incomes below 50% of the median equivalised income


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Wealth data

National Household Balance Sheet of Assets & Liabilities
Stats Can Household Balance Sheet, 2018

https://www150.statcan.gc.ca/n1/daily-quotidien/190314/dq190314a-eng.htm

- Individuals OWN $13 Trillion assets
- Individuals OWE $2 trillion in debt
- Net worth approx $11 T Or $300K EACH

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Stats Can, media net worth by age & family, 1999-2012

<table>
<thead>
<tr>
<th>Age</th>
<th>1999</th>
<th>2012</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 35</td>
<td>23,300</td>
<td>25,300</td>
<td>8.6%</td>
</tr>
<tr>
<td>35-44</td>
<td>124,800</td>
<td>182,500</td>
<td>46.2%</td>
</tr>
<tr>
<td>45-54</td>
<td>244,100</td>
<td>378,300</td>
<td>55%</td>
</tr>
<tr>
<td>55-64</td>
<td>354,200</td>
<td>533,600</td>
<td>50.6%</td>
</tr>
<tr>
<td>65+</td>
<td>270,700</td>
<td>460,700</td>
<td>70.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Families</th>
<th>1999</th>
<th>2012</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Families</td>
<td>390,100</td>
<td>650,400</td>
<td>66.7%</td>
</tr>
<tr>
<td>Non Senior</td>
<td>176,600</td>
<td>318,600</td>
<td>80.4%</td>
</tr>
<tr>
<td>Lone parent</td>
<td>20,000</td>
<td>37,000</td>
<td>85.0%</td>
</tr>
<tr>
<td>Unattached singles</td>
<td>38,000</td>
<td>49,000</td>
<td>28.9%</td>
</tr>
</tbody>
</table>
Stats Can, Assets held outside of pension plans by Cdn households, 1991-2013

Source: Statistics Canada, National Balance Sheet Accounts. CANSIM Table-378-0121, 2013
How much do you need to retire?
Why seniors need LESS income in retirement

- do not pay CPP/QPP or EI premiums
- 65 age tax credit reduces personal taxes
- costs of dependents declines
- commuting costs disappear
- entertainment costs decline dramatically
Is 50% the new 70%?

- Long assumed 70% of work income needed in retirement to maintain standard of living

- However research by Stats Can & Malcolm Hamilton & Fred Vettese (Morneau)

- Found that only 50% of work income needed in retirement to maintain consumption
Baldwin, Stats Can 2014 Study

- Average before-tax income per adult in households aged 65 to 74 was 74% of households headed by 45-64-year olds.
- When financial wealth included, rose to 82%.
- When housing included, increased to 88%.

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Stats Can, Household spending by income quintile by type of spending, 2012

<table>
<thead>
<tr>
<th></th>
<th>Lowest quintile</th>
<th>Second quintile</th>
<th>Third quintile</th>
<th>Fourth quintile</th>
<th>Highest quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average household</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures</td>
<td>29,921</td>
<td>43,507</td>
<td>64,008</td>
<td>88,061</td>
<td>151,506</td>
</tr>
<tr>
<td>Food</td>
<td>14.1</td>
<td>13.6</td>
<td>11.4</td>
<td>10.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Shelter</td>
<td>32.5</td>
<td>26.9</td>
<td>22.6</td>
<td>20.8</td>
<td>16.4</td>
</tr>
<tr>
<td>Clothing and</td>
<td>5.2</td>
<td>5.3</td>
<td>4.9</td>
<td>4.4</td>
<td>4.2</td>
</tr>
<tr>
<td>accessories</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>13.8</td>
<td>16.0</td>
<td>17.2</td>
<td>16.0</td>
<td>13.1</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1.1</td>
<td>5.3</td>
<td>10.8</td>
<td>15.6</td>
<td>27.7</td>
</tr>
</tbody>
</table>

http://www.statcan.gc.ca/daily-quotidien/140129/t140129a002-eng.htm

Seniors with income, by income source, Canada, 1976, 1993 and 2011 (percent)

Source: http://well-being.esdc.gc.ca/misme-iowb/.3ndic.1t.4r@-eng.jsp?iid=27

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Boomers ie Givers

Chart 1
The Givers

Population in Age Group 75+

Mean Net Assets (in 2012 constant dollars)

Source: Statistics Canada, CIBC

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Avg Inheritance in past Decade

![Chart 5: Average Inheritance Received in the Past Decade](chart5)

- **Source:** CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs)
Half of Cdns 50-75 Received Inheritance

Chart 4
Half of Canadians Aged 50-75 Received Inheritance

Age 50-75 Received Inheritance

<table>
<thead>
<tr>
<th>Inheritance Received</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>60%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td>40%</td>
</tr>
<tr>
<td>30%</td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>10%</td>
</tr>
<tr>
<td>0%</td>
</tr>
</tbody>
</table>

- Yes
- No

Source: CIBC Inheritance Survey, 2016
Total Inheritance Received

Source: Statistics Canada, CIBC, CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs, inflation adjusted)
So – where is the problem?
Canadian private sector employee pension coverage by gender & size of firm, 2011

Source: Adapted from Drolet and Morissette (2014): Table 5.
3 Tier Cdn Pension System

I. Bottom quintile: old age welfare
   □ Why? SMEs cannot afford to pay & SME workers can’t afford to save for retirement
   □ To solve, we created OAS & GIS in 1967
   □ but made it universal to disguise its nature

II. Lower mid quintile – some support ie CPP

III. Top 3 quintiles – you are on your own
YET 83% of Cdn households on track to maintain or exceed their consumption in retirement

Distribution of Canadian households’ RRI – 2014

RRI thresholds applied
(based on historical analysis)

RRI score

1 Working households where the primary income earner is 25 to 64 years old with annual household incomes between $10-250K
8% of households have an RRI greater than 300 and are not shown

SOURCE: Retirement Readiness Index Model 2014
93% of low income households able to maintain consumption in retirement

100% of households\(^1\)
83% > RRI threshold

40% of households:
Low income
93%

Income bracket
$10k-50k

60% of households:
Mid-high income
79%

Income bracket
$50k-250k

\(^1\) Based on primary income earner’s current coverage

SOURCE: Retirement Readiness Index Model 2014
Data shows perception is far from reality

**PERCEPTION:**
- A widespread retirement readiness crisis in Canada
- The current framework fails to ensure income replacement in retirement
- Needs a universal solution

**REALITY:**
- 83% of Canadians are currently on track for retirement
- 93% of low-income households are on track due to OAS/GIS & CPP/QPP assets
- 77% of mid-to-high income households are on track
- Those **not on track** are either:
  1) Not contributing enough to their pension plans, or
  2) Without a pension plan and not saving enough on their own
Malcolm Hamilton, Do Canadians save too little?

IF low saving rates, low pension plan participation rates, increasing longevity, mountains of unused RRSP room and an inadequate CPP are serious problems, the consequences should already be evident, but they are not – Malcolm Hamilton
Morneau Shepell, Conclusions

a. There is no retirement crisis at low incomes where individual responsibility for saving is almost nil

b. And no crisis at very high incomes where individual responsibility is almost 100%

c. Looming ‘crisis’ at middle incomes where individual responsibility is ill-defined; even then, only 15%-20% are in trouble

Source: Fred Vittese, Are households financially prepared for retirement? March 27, 2015
Conclusion: No savings or pension crisis

- Savings = Assets
- Assets are liquidated or converted to cash
- Cdn seniors average $650,000 net assets
- i.e. savings = no savings or pension crisis
- Per Milligan bottom 20% have higher incomes in retirement
Potential Solutions

- UNIVERSAL solution applies to 100%
- Yet 80% do NOT have pension problem
- TARGET 7.5% seniors below poverty line with enhanced GIS & survivor benefits
- Ie Mintz solution