

## What will be the future of Canada's pension system?

Prime Minister Harper has stated that the eligibility for Old Age Security may be changed to 67 from 65. To date, details of this proposed change have not been released.

### Here are some questions to consider:

- Will there be consultation on the proposed changes that the government has suggested?
- How will communities prepare for more seniors staying in the workforce?
- What will businesses/industries have to do to accommodate an aging workforce with increased physical challenges?
- What impact will such changes have on low income seniors?

### What is Old Age Security?

OAS is the centrepiece of the country's public pension system, funded entirely by government revenues. It's available to any Canadian citizen or permanent resident who has lived in the country for at least 10 years. People qualify at age 65. The maximum payment is \$540.12 a month for seniors with less than \$69,562 in annual net income. The payment is gradually clawed back for those above that income threshold, until it disappears for those earning more than \$112,772.

### What about the Guaranteed Income Supplement?

This is paid to seniors who make less than \$16,368, with a maximum monthly benefit of \$732.36 per month. There is no indication if that will change

### What the Government is saying will happen:

Baby boomers are heading toward retirement, and there will be fewer Canadians in the workforce to pay taxes to government. Without change, says the government, OAS will balloon in size and cost - from 4.7 million recipients (costing \$36.5 billion) in 2010 to 9.3 million people (costing \$108 billion) in 2030.

Any changes to retirement income won't be sudden, but the government isn't ruling out any options for restructuring the system, states Minister of State for Finance Ted Menzies. He further acknowledged that the government wants to make sure the system in place now can be sustained in the future.

Prime Minister Stephen Harper told world leaders Thursday that Canada's retirement income system will see some "necessary" changes in the coming months. In his keynote speech at the World Economic

Forum in Davos, Switzerland on Harper said Canada's aging population "poses a threat" to the country's social programs and services.

"We have already taken steps to limit the growth of our health-care spending ... We must do the same for our retirement income system," Harper said Thursday.

Officials said details on some of the initiatives will come in the spring budget. In his speech, Harper said the Canada Pension Plan, the "centrepiece of that system," was fully funded and would not be changed. However, he added, "For those elements of the system that are not funded, we will make the changes necessary to ensure sustainability for the next generation...Canadians have always been expected to contribute to their own retirement as well."

The number of Canadians over 65 will rise to 9.3 million in 2030 from 4.7 million in 2010. Officials noted the cost of OAS benefits is pegged to almost triple to \$108 billion a year in 2030 from \$36.5 billion in 2010. OAS is a cornerstone of the retirement security system and, together with the Guaranteed Income Supplement, has been the main reason poverty among seniors in Canada is so low. But since the population is aging and the number of taxpayers is dwindling, the program is seen as unsustainable in its current form. Numbers provided by Harper's office say there were four taxpayers for every senior in 2010, but by 2030 it will drop to two taxpayers for every senior.

Sources: Toronto Star, January 28, 2012, Peterborough Examiner, January 28, 2012, Globe & Mail, January 31, 2012, Globe & Mail, February 1, 2012.

#### **What the critics are saying:**

**Gerard Lee, a former Service Canada employee, a pension expert and investment counsellor**, says it is up to Canadians to save their old age security from future cuts or changes. Lee said he has seen this type of tough stance by politicians over the years. He said the notion is made publicly to gauge the level of opposition. If they feel pressure from the electorate and there is a risk to their political future, he said, they will backdown.

"I am talking about reaction from individual Canadian citizens, by way of email or telephone or by writing or faxing," he said. "If they don't get bombarded with inquiries or disgust with this issue it is going to go ahead, I can guarantee you. That is how politicians work." He went on to say that the Conservatives will not commit political suicide with such an initiative, if the public portrays that as the eventual reality. "If they don't get bombarded with inquiries or disgust with this issue it is going to go ahead, I can guarantee you...If not enough Canadians take the time — especially those that are right now 45 and up, and are preparing for and setting out a plan for their own retirement — get on the horn and get some attention, this will be a done deal." (Source: The Western Star, February 1, 2012)

**Malcolm Hamilton, an actuary at Mercer Consulting**, who's been following the debate for years, states "I'm looking at numbers and projections that I've been looking at for over a quarter of a century — without anyone in government saying there was an unmanageable problem." With lower fertility rates, one in three Canadians will be retired by 2030. Again, that's old news. "It's always been known that costs would escalate," Hamilton emphasizes. "Canadians have been led to believe this would be taken

care of. Governments would absorb the costs or find economies elsewhere. They should have said something earlier if they had concerns.

“You can’t let people cruise up to retirement age without getting benefits they counted upon. It’s a little late to decide the system is unsustainable.” And why did Harper increase the guaranteed income supplement (topping up OAS for low-income seniors) in his last budget without hinting that public pensions were under threat? That’s what Hamilton wants to know. It’s clear the Conservatives are ideologically opposed to raising taxes. If they want to reform Old Age Security to spend money elsewhere, they can do so in other ways without making people wait two years to collect. (Source: Toronto Star, February 1, 2012.)

### **Why this of pension reform is a community planning issue:**

In 2010, the Workforce Development Board, in partnership with a consortium of organizations undertook the “Aging Workforce Research Pilot Project”. The study was a qualitative and exploratory study of the sustainability of manufacturing and health care workers ages 55+ in the Peterborough area during 2010. Its purpose was to identify and investigate labour market challenges and opportunities confronted by workers at the back end of their careers when work-time is extending, responsibilities are piling up, the public pension is under revision and the job market is under pressure. The main question directing the study was: **‘How are people coping, what we can do to help and what more needs to be known to promote the sustainability of a robust senior cohort in the labour force?’**

Outcomes and directions included:

- WSIB and injury prevention agencies should highlight cost benefits of accommodations in the workplace (more effective ones don’t cost much money).
- Need for physicians and employers to better understand return to work issues and what may be needed to accommodate the aging worker
- Encourage employers to invest in training for the aging workforce
- Encourage older workers to also invest in up-grading of skills and education.
- Encourage employers to have policies in place to help with transitions for an aging workforce (workshops, reducing work load, emotional and social planning, financial planning)
- Provide workshops in the community to aid with the transition to retirement
- Expand the range of employment structures to accommodate part-time work which may older workers will need (without an erosion of benefits)
- Address ageism in the workplace
- Focus on age discrimination and the multigenerational workplace.
- Work standards are changing along with technology and new market conditions and need to be adopted with the ‘sustainable’ worker in mind.

Ultimately, the study supported the need for the work environment to change to accommodate and aging workforce until they retired at the age of 65. If there is now a change in retirement due to pension changes, the directions sited in this report are even more vital to our community.

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