



## Help Canadians Help Themselves to Retire in Dignity CARP Budget Submission to the House of Commons Standing Committee on Finance

### **Executive Summary**

Canadians spend their working years building towards a secure and dignified retirement. As Canadians age, they want to provide for themselves and their families and to stay in their own homes as long as possible. But for too many Canadians, this is a challenge they cannot meet alone. Government has a role to play.

This was recognized in recent policy changes: the top-up Guaranteed Income Supplement (GIS) will help the poorest seniors and the caregiver tax credit is an important improvement in the support for the estimated 2.7 million Canadians caring for loved ones at home. Pension reform proposals reflect government leadership to help Canadians better save for their retirement, the promise to repeal mandatory retirement at the federal level will let people keep working if they prefer or must and the promise to take action on elder abuse will hearten vulnerable seniors.

The massive losses in retirement savings caused by the recession and concerns over the sustainability of the healthcare system require further government action to help Canadians help themselves to save for and maintain their standard of living in retirement and to look after their own health and well-being in dignity.

CARP, therefore, recommends that the federal government target:

**1. Retirement Insecurity:** The economic downturn has exacerbated fears of outliving our money. Hard earned retirement savings have already been eroded in the market crash and forced RRIF withdrawals limit participation in the modest recovery. Claw back rules punish those who try to help themselves especially the most disadvantaged.

Income inequality in Canada has increased over the past twenty years.<sup>1</sup> A recent Conference Board of Canada report on poverty identified seniors, especially women, as most at risk of living in poverty<sup>2</sup>. Between 2006 and 2009, nearly 128,000 more seniors became low income. Of that amount, an overwhelming 70% were women.<sup>3</sup>

**CARP recommends** a comprehensive readjustment of tax and income support policies to facilitate, and remove barriers to, retirement security including mandated RRIF withdrawals, certain OAS clawback rules, GIS eligibility rules and an equivalent to spouse allowance for single seniors.

**2. Retirement Savings Gap:** Millions of Canadians without a workplace pension need access to a universally accessible and affordable retirement savings vehicle which will provide a reliable and adequate retirement income. The proposed Pooled Registered Pension Plans (PRPPs) acknowledges the need and improves on the status quo but lacks the safeguards that will ensure an adequate retirement income. There is time and opportunity to learn from the negative experience of a similar system in Australia and the positive example of the Canada Pension Plan (CPP).

**CARP recommends** that safeguards be legislated for the PRPPs such as fee caps, and further consideration be given to providing target or defined benefits such as through a supplementary CPP or public option PRPP, together with a CPP enhancement, to ensure that Canadians have the best possible options to provide adequately for their own retirement.

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**3. Aging at Home:** Home care can facilitate dignified aging for all Canadians and their families and has the potential to divert a massive amount of demand from the formal healthcare system. CARP polls show that our members' need for home care is not currently being met.<sup>4</sup> Seventy-one percent of members polled do not know whether their home province provides 24-hour homecare to those who need it. Over 40% of members polled do not know where they would get homecare if they needed it. And 70% agree that 24-hour in-home care is preferable for those who need it to institutional care.

**CARP recommends** that the federal government take the lead in negotiating the new Health Accords to promote a home care strategy that ensures national standards of care, funding, and ensures accountability.

**Who We Are:** CARP is a national, non-partisan, non-profit organization with over 300,000 members across the country. CARP is committed to advocating for social change that will enhance the quality of life for all Canadians as we age. Retirement security is a principal concern for our members and our advocacy. These are our recommendations to help older Canadians weather the economic storm.

### **1. RETIREMENT INSECURITY:**

Financial concerns for older Canadians take many forms. For some, the worry is insufficient retirement income to maintain their standard of living after retirement and for others it is the inability to make ends meet on a daily basis.

#### **Poverty among Canadian seniors significant and rising**

After decades of improvement, the percentage of seniors living near or in poverty rose by 25% from 2007 to 2008.<sup>5</sup> It is estimated that 200,000 to 300,000 Canadians over 65 live in poverty depending on the measure. The Organization for Economic Cooperation & Development (OECD), which uses median household income to determine the poverty line, estimates that 4.4% of Canadians over 65 almost 200,000 individuals live in poverty. Using the Low-income Cut-off (LICO) as a measure of poverty, approximately 7% of Canadians over 65 are living in poverty, or 300,000. A more instructive measure is the 1.6 million Canadians who receive GIS, or nearly 35% of all Canadians over 65, who by being eligible for GIS can be considered to be financially insecure.

If nothing is done to address financial insecurity among seniors, by 2031 there could be well over 600,000 seniors in Canada officially living in poverty and millions more facing financial insecurity.

#### **Depth of poverty is under-appreciated**

After-tax LICO for 2010<sup>6</sup> was \$ 12,271 for a single person living in a rural community and \$18,759 for a person in a city with a population of 500,000 or more. But, it would be a mistake to think that the 300,000 people living under LICO all have these levels of income. In fact, the average is closer to \$15,000 and the worst off are living on \$3,600 to \$9,500.

#### **Seniors Most at Risk of Poverty**

A recent report from the Conference Board of Canada shows that income inequality in Canada has increased over the past twenty years.<sup>7</sup> Middle and lower income Canadians are experiencing shrinking shares in the national wealth but the report identified seniors as a group most at risk of experiencing low income.<sup>8</sup>

Between 1997 and 2003, the average income of Canadian households increased by \$9,000 whereas the mean income of households headed by Canadians over 65 increased by only \$4,100.<sup>9</sup>

### **The incidence of financial insecurity is segmented**

The risk of poverty is much higher among seniors living alone versus those living in couples, and greater among women and visible minorities. Women may face retirement with less income for a number of reasons: their wages were inferior if they worked, they live longer than men and may more likely outlive their retirement savings, and women are still more likely than men to lose some working years to care for children or parents and spouses.

Between 2006 and 2009, nearly 128,000 more seniors became low income. Of that amount, an overwhelming 70% are women.<sup>10</sup> According to Statistics Canada, 18% of single (unattached) women over 65, who live alone, live in poverty.

By 2004, 7.3 percent of all retired women still lived in poverty – more than double the rate of retired men. While the number of women with workplace pension plans tripled from 1974 to 2004<sup>11</sup>, there is still a discrepancy in pension incomes between men and women that contribute to greater levels of poverty among older women. Between 1991 and 2001, for example, retired women still earned 60 percent of the pension income earned by men.<sup>12</sup>

### **Income Supports Inadequate and undersubscribed due to complexity**

Exacerbating the problem for single seniors is that the OAS allowance for people aged 60-64 is not available to those who are single, divorced or separated, or married to someone who has not yet reached age 65.<sup>13</sup>

Statistics Canada reports that an astounding 159,400 eligible Canadians over 65 are not collecting GIS benefits.<sup>14</sup> Effectively, almost 12 percent of eligible Canadians are not receiving GIS payments due in large part to the complexity of the application process. Auto-enrolment, such as through the income tax returns, is one solution for this problem.

### **Efforts to save for Retirement undermined by income tax, OAS, GIS rules**

The market meltdown drastically eroded retirement savings which have barely recovered. The mandatory RRIF withdrawals permanently remove the tax deferred savings room and seriously impede their recovery. People already retired need more tax deferred room, not less, to rebuild their much needed savings. There should be a moratorium on mandated RRIF withdrawals and/or an expansion of the TFSA room.

The use of the Income Tax filings to determine eligibility for Old Age Security and Guaranteed Income Supplements unfairly reduces those payments - for example, the dividend gross-up distorts the actual income of the recipient. While unfair for middle income groups, it is a particular hardship for those who rely heavily on GIS. These provisions should be removed so that OAS/GIS eligibility is determined based on actual resources.

Those who rely heavily on GIS face further setbacks that undermine their efforts to help themselves. Any modest RRSP/RRIF savings erode their GIS payments. The band of exempt casual earnings should be increased and expanded to include modest amounts of RRSP/RRIF withdrawals.

**CARP recommends** a comprehensive readjustment of tax and income support policies to facilitate, and remove barriers to, retirement security including mandated RRIF withdrawals, certain OAS clawback rules, GIS eligibility rules and an equivalent to spouse allowance for single seniors.

## 2. RETIREMENT SAVINGS GAP

CARP's principal focus with regard to the larger issues of pension plan coverage and savings adequacy has been on the 3.5 million middle income earners working for smaller employers and the 4.9 million earning less than \$30,000 per year.<sup>15</sup> This grouping of 8.4 million Canadians tends not to have workplace pensions and is most likely to have not saved adequately for their retirement. This retirement savings gap has been acknowledged by the federal and provincial governments and the Pooled Registered Pension Plans (PRPPs) is proposed to address it. But protections for investors are needed to avoid the pitfalls already seen in other countries.

Australia experimented with a nearly identical plan over a decade ago, and the results are not encouraging. The Australian Super Fund is mandatory with an opt out and essentially requires the employers to enrol their workers in one of many defined contribution plans offered by the private sector. A recent review of the system after 12 years experience, Australian Super Fund Review<sup>16</sup> commissioned by the Australian government, shows that while people were saving in droves through mandatory contributions, investment returns were no better than inflation. The report blamed the high fees and costs despite the presumed role of competition.

Canadians now contribute about \$40 Billion to their RRSPs but that still leaves an estimated \$80 billion in RRSP tax-deferral room that has not been taken up. The potential business for the private sector administrators of the new PRPPs is enormous and the regulated financial institutions will get monopoly access to a major source of new business so now is the time to stipulate conditions such as regulated fee caps and limitations on risk taking with retirement funds and all the more reason for the stakeholders that will be consulted on the proposals to include knowledgeable representatives of retirees.

CARP Members have been polled for their opinion on PRPPs and with their experience as retirees, they have clear expectations. They want the PRPPs to have the same low fees, risk management rules and defined/target benefits as the CPP.

Members do not expect the private sector to provide safe, low-cost retirement plans. Members prefer the public option and the majority think that an enhanced CPP or another public option has a vital role to play in helping people to save adequately for their retirement, whether along with, or instead of PRPPs.

Certainly, the PRPPs improve on the status quo but the proposal does not include a public option, and calls for a Defined Contribution approach, so CARP is calling for legislated protections to ensure affordability, benefit adequacy, portability, fiduciary responsibilities, and proper risk management.

**CARP recommends** that safeguards be legislated for the PRPPs such as fee caps, and further consideration be given to providing target or defined benefits such as through a supplementary CPP or public option PRPP, together with a CPP enhancement, to ensure that Canadians have the best possible options to provide adequately for their own retirement

## 3. AGING AT HOME

Most Canadians prefer to remain at home as long as possible as they age even if they face medical, physical or cognitive challenges. With proper supports such as home care workers and support for the family caregivers, the Aging at Home strategy has the potential of both letting people age gracefully and safely in their homes as well as diverting a significant amount of demand from the formal health care system if people have a viable alternative to institutional care. CARP welcomes the modest improvement in support for family caregivers in the recent federal budget and calls for more action on the full range of supports that are needed to make this vision a reality.

Home care was designated as the next essential service<sup>17</sup> in the 2003 Health Accords. With hospital downsizing, the aging population and shorter lengths of hospital stay, the last decade and a half has seen the rapid expansion of the post-acute home care sector. The result is an increased reliance on family and friends to fill home care service gaps. The Romanov Report recommended that the massive Home Care Transfers to the provinces be used to support medically necessary home care services via the formal healthcare system<sup>18</sup> but also recommended that the federal government provide direct support for informal family caregivers:<sup>19</sup> The upcoming re-negotiation of the Health Accords presents an opportunity to establish national benchmarks, strategies, and funding to make the idea of Aging at Home a reality.

Home care represents both a challenge and an opportunity. The challenge is addressing persistent system-level problems that will only intensify with a growing population of older Canadians. Individual programs and strategies have not proved adequate to support an aging population. The opportunity is found in saving the formal healthcare system billion of dollars each year, while allowing Canadians to age at home with dignity.

The recent election demonstrated political recognition of the need to support the estimated 2.7 million Canadians now caring for loved ones at home. The value of the unpaid labour contributed by informal caregivers is estimated to be \$25 billion per year.<sup>20</sup> The Health Charities Council of Canada estimated that in 1997, 93 million hours of formal volunteering were provided in Canada, on top of over 2 billion hours of informal caregiving. The combined value of these services was estimated at between \$20 and \$30 billion.<sup>21</sup> The exact monetary value of relieving the formal healthcare system of personal homecare responsibilities has not been estimated, but it is likely commensurately high.

Caregiving is only one part of the larger issue of homecare, which includes the formal healthcare system, including doctors, personal care workers, pharmacists, and others. It includes initiatives that get people home safely, get them placed in rehab or long term care if necessary and/or make sure they can meet their medical challenges at home as long as possible.

CARP polls show that our members demand for homecare is not currently being met.<sup>22</sup> Seventy-one percent of members polled do not know whether their home province provides 24-hour homecare to those who need it. Over 40% of members polled do not know where they would get homecare if they needed it. And 70% agree that 24-hour in-home care is preferable for those who need it to institutional care, even though it may be more personally costly.

**CARP RECOMMENDS** that the federal government use the upcoming Health Accords to promote a nationally coordinated homecare strategy that ensures standards of care, funding, and establishes accountability.

<sup>1</sup> Conference board of Canada, <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>2</sup> Conference board of Canada, <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>3</sup> Conference board of Canada, <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>4</sup> CARP Poll, <http://www1.carp.ca/PDF/Home%20Care%20Poll%20Report.pdf>

<sup>5</sup> Campaign 2000, *2010 Report Card on Child and Family Poverty in Canada: 1989 – 2010*, 2010.

<sup>6</sup> <http://www.statcan.gc.ca/pub/75f0002m/2011002/tbl/tbl01-eng.htm>

<sup>7</sup> Conference board of Canada, <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>8</sup> Conference board of Canada, <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>9</sup> National Advisory Council on Aging, <http://dsp-psd.pwgsc.gc.ca/Collection/H88-5-3-2005E.pdf>

<sup>10</sup> Conference board of Canada, <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>11</sup> Government of Canada, Evidence Number 36, October 2009, *Standing Committee on the Status of Women*.

<sup>12</sup> Ibid.

<sup>13</sup> Statistics Canada, 2006 Census, Income Status Before Tax and Income Status After Tax (8) and Economic Family Status and Age Groups (80) for the Persons in Private Households of Canada.

<sup>14</sup> Statistics Canada, GIS Update, Catalogue no. 75-001-X.

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<sup>15</sup> Ambachtsheer, Keith: The Canada Supplementary Pension Plan (CSPP) Towards an Adequate, Affordable Pension for All Canadians. C. D. Howe Institute May 2008

<sup>16</sup> <http://www1.carp.ca/PDF/Australia%20example1.pdf> Redesigning Choice and Competition in Australian Superannuation

<sup>17</sup> Romanow, Roy J. "Building on Values: the Future of Homecare in Canada" National Library of Canada, (2002) 171.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Hollander, Marcus J. et. al. *Who Cares and How Much? The Imputed Economic Contribution to the Canadian Healthcare System of Middle-Aged and Older Unpaid Caregivers Providing Care to The Elderly*" Healthcare Quarterly, 12(2) 2009. 42-29.

<sup>21</sup> , Roy J. "Building on Values: the Future of Homecare in Canada" National Library of Canada, (2002) 171.

<sup>22</sup> CARP Poll, <http://www1.carp.ca/PDF/Home%20Care%20Poll%20Report.pdf>