CARP 2013 Budget Submission to the House of Commons Standing Committee on Finance

Executive Summary

Financial insecurity is a growing concern for older Canadians. Inadequate retirement savings, precarious employment, and poor investor protection combine to render too many older Canadians financially vulnerable to even minor economic shocks and unable to prepare for retirement. Nearly 6% of seniors still live in poverty, amounting to almost 300,000 people.[i] One in six single seniors, most of whom are women, lives in poverty. Almost 12 million working Canadians do not have workplace pension plans and Canadians are increasingly unable to save sufficiently for their own retirement.[ii]

The federal government has made economic and employment issues a priority. Recent initiatives aimed at helping older and senior Canadians have been widely welcomed, including the 2011 Guaranteed Income Supplement (GIS) increase, the non-refundable Caregiver Tax Credit, the Targeted Initiative for Older Workers (TIOW), and the elimination of mandatory retirement. But more needs to be done to ensure Canada's aging population will be financially secure and able to prepare for retirement. The decision to change the Old Age Security (OAS) age of eligibility from 65 to 67 and the ongoing reluctance to meaningfully address pension reform will place many older Canadians in tenuous financial circumstances. Precarious employment and a retail investment environment that sidelines investor protection add to the difficulty older Canadians experience in maintaining financial security, before and after retirement.

The 2014 budget is an opportunity for the federal government to help older Canadians achieve financial security and prepare for retirement.

CARP recommends that the federal government:
1. Lead the way on comprehensive pension reform and retirement security:

- Work with provinces to create a national supplementary Universal Pension Plan (UPP) and enact a modest CPP enhancement.
- Commit to funding the replacement of the OAS and GIS benefits that will be lost by the most financially vulnerable seniors because of the changes to OAS, as a first step to restoring the OAS eligibility age to 65.
- Support single seniors, with particular regard to older women, with an equivalent to spousal allowance for single seniors in financial need and by making the Caregiver Tax Credit refundable.

2. Work with employers and provinces to create job opportunities and stable employment for older workers:

- Remove barriers to continued employment: amend tax and pension systems to encourage continued employment, such as being able to work and receive benefits while still contributing to a pension plan; create employer incentives that encourage policies such as flexible time.
- Help unemployed older Canadians in job search: further minimize work disincentives associated with the GIS claw back provisions; amend Employment Insurance rules to give older workers more time to find suitable job opportunities.
- Create job opportunities and promote the value of older workers: incent employers to hire and retain older workers; incent and/or fund employer-based job fairs and placement agencies that match unemployed older workers with relevant opportunities in their fields; incent innovative management programs such as caregiver leave/support, "emeritus" work, and flexible time and salary plans.

3. Work with provinces to create a dedicated investor protection enforcement agency, within a single national regulator:

- Work with provinces to establish a dedicated national investor protection agency with specialist knowledge to receive complaints, investigate crimes, and support prosecutions; a tribunal with authority to order restitution, undo transactions, provide mediation, and order compliance, with access provided to retail investors; and a compensation fund to pay restitution.

1. Pension Reform and Retirement Security

In June 2010, finance ministers finally acknowledged that Canadians were not saving enough for their own retirement and that governments had a role to play. The federal government introduced Pooled Registered Pension Plans (PRPPs) as a solution to the savings gap and finance ministers committed to considering a “modest” CPP enhancement. Since then, federal PRPP enabling legislation has been enacted and provincial legislation has been tabled and is in various stages of approval, but no further action has been made on comprehensive pension reform.

It is now widely accepted that Canadians are not and cannot save adequately for their own retirement. Twelve million Canadians - two-thirds of the workforce - do not have occupational pension plans. Approximately 36% of Canadians in 2011 stated a lack of confidence in their ability to save for retirement, compared to 18% in 2010.[iii] RRSPs have not been the answer to retirement security and another voluntary option such as the PRPP is unlikely to improve savings. In 2011, Canadians contributed $34.4 billion to RRSPs, which was only 4.5% of the total room available to eligible tax-filers.[iv] There is little reason to believe that PRPP’s will address the savings gap.

Inadequacy of private savings: PRPPs are not the answer

There is a growing consensus that PRPPs are not the answer to the pension crisis.[v] PRPPs fall short of the core goal of providing a universally accessible and affordable retirement savings vehicle that would help provide an adequate retirement income. PRPPs can be made to help Canadians better save for their own retirement, but only if current design problems are corrected.

Australia experimented with a nearly identical plan over a decade ago, and the results are discouraging. The Australian Super Fund is mandatory – with opt out – and requires employers to enrol their workers in one of many defined contribution plans offered by the private sector. A recent review of the system after twelve years of experience, Australian Super Fund Review commissioned by the Australian government, shows that while people were saving in droves through mandatory contributions, investment returns were no better than inflation.[vi] The report blamed the high fees and costs despite the presumed role of competition. PRPPs have many of the same disadvantages.

Universal Pension Plan: Help Canadians save for their own retirement

CARP has long called for a supplementary Universal Pension Plan (UPP) that would work like the CPP, allowing Canadians to safely supplement retirement savings in a large national plan.[vii] CARP is advocating for a UPP, independent of government or single employers, with mandatory enrolment that would use the existing payroll deduction mechanism, and professional management, with a focus entirely on optimal performance.

CARP’s UPP model would provide target benefits allowing Canadians to better plan for retirement. Such a plan would provide Canadians true portability across jobs and provinces, and like the CPP; its size would offer greater protection against market shocks, unlike other retail investment options and PRPPs.

Enhance CPP to improve retirement prospects for all Canadians

In 2010, the Federal government committed to working with the provinces and to effect a modest enhancement to CPP at the same time as introducing PRPPs. The political landscape has changed dramatically since the PRPPS were first announced and the CPP-enhancement portion of the commitment was sidelined. June 2013 saw another opportunity for action pass by, as Finance Ministers did not meet, as was expected, to further discuss action on CPP enhancement.

As one of the largest pension funds in the world, the CPP should be modestly enhanced to further help all Canadians retire in security. Enhancing the CPP is affordable and would result in considerable additional retirement income for all Canadians. According to CARP estimates, a modest 10% increase - from 25% of Yearly Maximum Pensionable Earnings (YMPE) to 35% - would result in a maximum additional benefit of approximately $5,000/year and cost about $50/month payable by each employee and employer for those earning the maximum pensionable earnings. A 10% enhancement of the CPP would only cost approximately $20/month for low income earners. Even doubling the CPP, from 25% YMPE to 50%, would result in maximum monthly premiums for employees of approximately $110 for high-income earners and as little as $45 for low-income earners. Doubling the CPP would result in a maximum additional benefit of roughly $25,000 per year - $12,500 more per year than the current maximum. With most provinces sharing the original commitment, now is the time for the federal government to lead the way to modest CPP enhancement.

Protect Vulnerable Canadians from Changes to OAS

After formally recognizing 680,000 financially vulnerable seniors with a modest increase to the GIS in 2011, the federal government changed course in 2012 and changed the age of eligibility for OAS from 65 to 67. The decision to change OAS eligibility seems to dismiss the same group of people for whom government increased the GIS. For low-income seniors, the impending loss of OAS and GIS will be a serious challenge since eligibility for GIS is tied to OAS eligibility.

CARP is on record opposing the changes to the eligibility age for OAS. More than two-thirds of CARP members strongly oppose the changes [viii] and more than 70% of members support our ongoing opposition to the changes, despite the fact that most current CARP members themselves will be spared the effects of the changes in ten years' time.[ix]

According to the government's own actuarial sources, the 680,000 very vulnerable seniors deserving of a GIS increase in 2011 is expected to grow to over one million in the coming years.[x] Impending changes to the OAS will only exacerbate financial instability among older Canadians. Many will be forced onto provincial welfare programs or will have to remain in low-paying or physically taxing labour.

In the 2012 federal budget, the government committed to ensuring that certain federal programs, including programs provided by Veterans Affairs Canada and Aboriginal Affairs and Northern Development Canada that currently provide income support benefits until age 65, are aligned with changes to the OAS program. Without such an alignment, individuals receiving benefits from these programs would stop receiving them at age 65 and face an income gap until age 67 when they become eligible for OAS and GIS. The alignment will ensure that these individuals do not face a gap in income at ages 65 and 66. The same consideration is owed to all financially vulnerable Canadians who will be challenged by the changes to OAS.

Lift single seniors out of poverty

The hardest hit group of Canadians are single, unattached, women over 65, almost 18% of whom live under the after tax low-income cut-off of approximately $20,000/year.[xi] This situation is not expected to dramatically improve in the immediate future: over 30% of single women between 45 and 64 are low-income. Seventy percent of part-time workers and 66% of minimum wage earners are female.[xii] For many of these women, the combination of OAS and GIS is the deciding factor in keeping them out of poverty.[xiii]

Single seniors are more prone to lower income than their married or coupled counterparts. Eighteen percent of single women and 14% of single men over 65 live in poverty.[xiv] While the number of women with workplace pension plans tripled from 1974 to 2004[xv], there is still a discrepancy in pension incomes between men and women that contributes to greater levels of poverty among older women. Women still earn considerably less than men. Between 1991 and 2001, for example, retired women earned 60% of the pension income earned by men.[xvi]

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.[xvii]

Recommendation - Lead the way on comprehensive pension reform and retirement security:

- Work with provinces to create a national Universal Pension Plan (UPP) and enact a modest CPP enhancement.
- Commit to funding the replacement of the OAS and GIS benefits that will be lost by the most financially vulnerable seniors because of the changes to OAS, as a first step to restoring the OAS eligibility age to 65.

- Support single seniors, with particular regard to older women, with an equivalent to spousal allowance for single seniors in financial need and by making the Caregiver Tax Credit refundable.

2. Older Workers

The right to work and remain engaged is under threat for many older Canadians. Older workers are pressured to “make room” for younger employees despite their experience, skills, and potential to continue to contribute to the economy. Some of the barriers are structural, others are part of workplace dynamics but they are largely based on negative attitudes and ageist presumptions about older workers.

For many older Canadians the traditional rules of retirement are no longer relevant. Continued engagement in the workforce provides social inclusion, promotes overall well-being, and helps prepare Canadians for an orderly retirement. Older workers expect the same rights as all Canadians - to work free of discrimination and be judged on their competence not their age. Today’s growing population of older workers is politically active and ready to demonstrate their value to the economy and society. Governments and business have a vested interest in the continued employment of older workers, as older Canadians will not sit back and accept the status quo.

Older Canadians are staying in the workforce longer than in previous years. Canada’s total labour force is estimated at roughly 18 million people. Eight million Canadians in the labour force are aged 45-plus, approximately - 45% of the total workforce. [xviii] Three and a half million Canadians aged 55-plus are in the labour force - 20% of the total workforce.[xix] Over 600,000 seniors (65-plus) are in the labour force. From 2006 to 2013, roughly 300,000 more seniors joined the labour force, almost doubling the number.[xx]

Work is a necessity that helps secure retirement and financial stability for Canadians without pension plans or adequate personal savings. The financial crisis in 2008 led to a 21.4% loss of Canada’s private pension funds.[xxi] Seventy-two percent of pre-retirees expressed concern about maintaining a reasonable standard of living for the rest of their life.[xxii]

Remove barriers to workforce engagement

On average, older workers have difficulty keeping their jobs, finding re-employment and they tend to stay unemployed longer once they’re out of the workforce. [xxiii] The reasons include workplace age discrimination, job loss, reduced wages, inflexible workplaces, and skills that may not match existing opportunities.

A recent Ipsos Reid poll found that 74% of those polled believed that workplaces discriminate against older workers who are looking for jobs.[xxiv] One-third of the respondents indicated that they have been a victim of age discrimination at work or in a job interview.[xxv] Most caregivers in Canada are over 45 years old, but labour practices and laws do not protect the jobs of people who need time to care for family members, with the exception in Ontario, where they allow 8 weeks of leave for caregivers. [xxvi]

Relocating can be costly and a new job may mean lower earnings. In 2008, half of the older workers who returned to work experienced a wage loss of at least 25% less than their previous position.[xxvii] A large proportion of older workers are in part-time, temporary, and self-employed work by choice, despite their experience and institutional knowledge.[xxviii] Even these work arrangements may be difficult to find, and tend to pay lower wages if they are found. With the gradual loss of traditional manufacturing jobs and emerging new technologies and industries, workers need to adapt quickly to meet labour market demands. Unlike younger workers, older workers can face greater difficulty up-grading skills to meet new demands.[xxix] Having unmatched skills and training is a particular challenge for those living in regions that had a dominant single employer or industry that has downsized.

New job application and hiring practices disadvantage some older workers, particularly those who are unexpectedly thrusted into the job market after a long tenure. Social media and other new online resources in today’s job market may not only be unfamiliar to older workers but also rarely allow adequate description of relevant experience.[xxx]

Develop comprehensive employment strategy for older workers

The federal and provincial governments have formally recognized their role in supporting older workers, most notably in the federal transfer program Targeted Initiative for Older Workers (TIOW), which funds provincial programs aimed at securing employment for older Canadians. But many older workers will not benefit from retraining programs alone.

A comprehensive plan is still needed, both to help unemployed older Canadians looking for work and to help currently employed older Canadians keep their jobs. CARP is calling on government and employers to work together to create an employment landscape that recognizes the importance and value of older workers by removing barriers and providing job opportunities.

With retirement security increasingly out of reach for many older Canadians and with a looming skilled labour shortage, there are important reasons to proactively address the employment needs of older workers. Older workers who remain engaged benefit themselves, fellow employees, and employers and continue contributing to society and the economy.

Recommendation - Work with employers and provinces to create job opportunities and stable employment for older workers:

- Remove barriers to continued employment: amend tax and pension systems to encourage continued employment, such as being able to work and receive benefits while still contributing to a pension plan; create employer incentives that encourage policies such as flexible time.
- Help unemployed older Canadians in job search: further minimize work disincentives associated with the GIS claw back provisions; amend Employment Insurance rules to give older workers more time to find suitable job opportunities.
- Create job opportunities and promote the value of older workers: incent employers to hire and retain older workers; incent and/or fund employer-based job fairs and placement agencies that match unemployed older workers with relevant opportunities in their fields; incent innovative management programs such as caregiver leave/support, “emeritus” work, and flexible time and salary plans.

3. Investor Protection

Consumer confidence in a well-regulated financial industry is a critical basis for economic stability, growth, efficiency, and personal financial well-being. Investors should have fair and reliable means of investing and saving for their retirement. However, many Canadians feel unprepared and are not saving enough.

Even among those who are investing, there is a reluctance to invest. With the recent economic turmoil and investments losses, trust in financial advisers and retail investment vehicles is waning. When surveyed, the majority of CARP members who suffered such a loss claim that their advisor encouraged the poor investment, even though most invested conservatively and pride themselves on their financial knowledge and investing acumen.[xxxi] Overall, there are major concerns among Canadians over their ability to save and invest adequately for a secure retirement.

Canadian retail investors deserve greater protection

CARP members were disappointed with the December 2011 Supreme Court decision to disallow a National Securities Regulator (NSR). The proposed NSR agency had promised better investor protection – something that CARP members have demanded. CARP is renewing the call for a comprehensive investor protection function within a NSR.

CARP members had wanted to see the NSR established because of the promised improvement in investor protection, including better investigation, mediation and restitution. The single NSR would have been a great step forward toward replacing the 13 disparate provincial and territorial regulators currently in place. CARP members polled have strongly endorsed a national initiative. Seventy-five percent of CARP members polled support a NSR with enforcement powers.[xxxii]

They see value in having a single regulator and indicated even greater support for the agency to have enforcement and restitution powers. CARP is encouraged by renewed negotiations between the federal and provincial governments to act nationally to improve investor protection.

Recommendation - Work with provinces to create a dedicated investor protection enforcement agency:

- Work with provinces to establish a dedicated national investor protection agency with specialist knowledge to receive complaints, investigate crimes, and support prosecutions; a tribunal with authority to order restitution, undo transactions, provide mediation, and order compliance, with access provided to retail investors; and a compensation fund to pay restitution.

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