People Behind the Numbers: CARP 2012 Budget Submission to the House of Commons Standing Committee on Finance

Executive Summary

Canada's aging population is increasingly in the public policy spotlight. But the 1 in 6 Canadians now over the age of 65 are not a homogenous a group. Most older Canadians are living longer, healthier lives than previous generations, but many in even the mid income groups still face challenges of financial insecurity and inadequate retirement savings. Worse, nearly 7 percent of seniors still live in poverty and almost 1 in 5 single senior women lives in poverty.[i]

Policy makers must see the people behind the demographic statistics. The federal government has recently targeted the varied needs of older Canadians, particularly in providing a top-up on GIS for 680,000 of the most vulnerable seniors, introducing the non-refundable Caregiver Tax Credit in 2011, and committing to proactive enrolment for OAS and GIS in the 2012 Budget.

These positive steps forward are compromised by changes to OAS eligibility, ultimately delaying access to the earned benefit by two years. These changes will hit hardest the Canadians least able to withstand the delay. At the same time, many single seniors continue to struggle making ends meet, and saving for retirement is becoming and elusive goal for most Canadians. CARP's recommendations to the Standing Committee of Finance urge the federal government to see the people behind the numbers.

Recommendations

1. CARP is on record opposing the changes to the eligibility age for OAS, as are more than two-thirds of CARP members.[ii] More than 70% of members support our ongoing opposition to the changes, despite the passing of the Omnibus Bill C-38 and the fact that most current CARP members will be spared the effects of the changes in 10 years time.[iii] The OAS issue exemplifies the divide between demographics and people. OAS is an earned benefit widely viewed by older Canadians as a universal pension, a crucial part of the social safety net to prevent poverty and give dignity to older Canadians. Many expect to rely on it even if they would not qualify as "poor" but the two year delay will be most adversely felt by those who can least do without it. CARP will continue to press for a repeal of the changes, but urges the government to commit at least to protecting the most vulnerable seniors.

CARP recommends that the federal government commit to funding the replacement of the OAS and GIS benefits that will be lost by the most financially vulnerable seniors as a result of the changes to OAS as a first step to restoring the OAS eligibility age to 65.

2. Older unattached women are especially vulnerable financially. These women - widowed, single, or divorced - tend to earn lower lifetime income than their male counterparts and cannot receive the OAS spousal allowance for Canadians aged 60-64 married to a pensioner. For these and other reasons, unattached older women as a group sustain one of the largest rates of poverty in Canada.

CARP recommends that the federal government 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.

3. Canadians are not saving enough for retirement and private savings vehicles have not been the answer. PRPPs are a step in the right direction, but fall short of the core goal of providing a universally accessible and affordable retirement savings vehicle. CARP has consistently called for a supplementary Universal Pension Plan modeled on the CPP. As a first step, previous federal commitments to seek a modest enhancement of the CPP should be advanced. The retirement security of millions of Canadians hangs in the balance.

CARP recommends that the federal government return to its 2010 commitment to work with the provinces to enhance the CPP, to ensure that no one falls into the retirement insecurity gap.

1. Protecting Future Vulnerable Seniors from Changes to OAS

One year after formally recognizing 680,000 financially vulnerable seniors with a modest increase to the GIS, the federal government has changed course, seemingly ignoring the same group of people for whom the impending loss of OAS and GIS will be a serious challenge since eligibility for GIS is tied to OAS eligibility. 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.[iv] Impending changes to the OAS will only exacerbate financial instability among older Canadians, not only those who would depend on GIS as well, who will have to wait an additional two years to claim their earned benefit. Many will be forced to remain in low-paying or physically taxing labour longer.

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 financially challenged by the changes to OAS.

CARP opposition to OAS

CARP is on record opposing the changes to the eligibility age for OAS. More than two-thirds of CARP members strongly oppose the changes[v] and more than 70% of members support our ongoing opposition to the changes, despite the passing of the Omnibus Bill C-38 and the fact that most current CARP members themselves will be spared the effects of the changes in 10 years time.[vi]

The OAS issue exemplifies the divide between demographics and people. Many Canadians, not just those most reliant on the OAS and GIS, will be adversely affected by the two year delay in OAS, which will hurt most precisely those Canadians least able to withstand the delay.

Delaying OAS hits hardest where it's needed most

Almost 300,000 Canadians over 65 still live in poverty and many more straddle the low-income threshold and struggle with financial insecurity in retirement. Between 2006 and 2009, nearly 128,000 more seniors became low income. Of that amount, an overwhelming 70% were women.[vii] After decades of improvement, the percentage of seniors living near or in poverty rose by 25% from 2007 to 2008.[viii]

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. This number will expand further after the changes to OAS.

Economic family status & Age group	Total number of individuals	Number of Low income individuals	Prevalence of low income (after tax) % within category
Total 65+	3,984,685	266,880	6.7%
Male, 65+	1,779,855	77,725	4.4%
Female, 65+	2,204830	189,160	8.6%
Male, 65+, single	332,280	46,730	14.1%
Female, 65+, single	858,645	158,560	18.5%

A more instructive measure of financial hardship is the 1.4 million Canadians who receive GIS, or nearly 35% of all Canadians over 65, who by being eligible for GIS are considered to be financially insecure.[ix]

GIS eligibility is dependant on OAS eligibility. Moving OAS eligibility from 65 to 67 will target and hurt the Canadians who need the income supplement the most. To qualify for GIS, an individual's income cannot exceed approximately $16,000. Most low income seniors make less and for those on social assistance, incomes are likely between $4,000 and $10,000/year.[x] Canadians in this income bracket will be devastated by the changes. Without federal intervention, many of these Canadians will be forced onto provincial welfare programs, which lack the security and dignity of an earned benefit.

The women's pension

OAS is a considerably more important source of income for older women than for men. In 2008, 52.6% of the income of senior women came from government transfers compared to 37.5% for men. A full 30% of senior women's income came from the Old Age Security program – twice as much - compared to 16.9% for men.[xi]

OAS benefits represent the first stable source of income for many older women. OAS may also be the first time low-wage earning women come close to moving above the low-income threshold. OAS is especially crucial to female caregivers who were separated from the workforce for long periods of time to care for children and now for elderly or sick family members.[xii]

CARP recommends that the federal government commit to funding the replacement of the OAS and GIS benefits that will be lost by the most financially vulnerable seniors as a result of the changes to OAS as a first step to restoring the OAS eligibility age to 65.

2. Older Women

The risk of poverty is much higher among seniors living alone compared to 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 be more likely outlive their retirement savings, and women are still more likely than men to lose some working years caring for children or parents and spouses.

Almost three million Canadians over 45 provide some informal care to family and friends, most of whom are women.[xiii] Caregiving is taxing physically, emotionally and financially. Informal caregivers do much of the heavy lifting better suited to professional long-term care (LTC), the out-of pocket expenses for which are out of reach for most seniors, regardless of provincial subsidies and co-pays. A universal LTC savings or insurance plan could go a long way to helping Canadian prepare and deal with the challenges of chronic illness and care.

In Germany, for example, mandatory Long-Term Care (LTC) insurance provides benefits to eligible family caregivers, which includes up to a maximum of four weeks leave during which the LTC insurance covers expenses and provides a maximum of 1,510 Euros.[xiv] Such policies provide heavy-care providers with the financial security needed to help family members with chronic conditions.

In lieu of such a plan in Canada, informal caregivers require meaningful financial support for providing millions of hours and billions of dollars worth of care to family and friends.

The incidence of financial insecurity is segmented

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

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.[xvii] While the number of women with workplace pension plans tripled from 1974 to 2004[xviii], 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 percent of the pension income earned by men.[xix]

Lower lifetime earnings

Women's average total income in Canada is lower than men's in every province. Women in Alberta and Newfoundland & Labrador experience an even greater income gap compared to men. Women's total incomes in Alberta were 55% of men's in 2008 ($34,000 for women and $61,700 for men); in Newfoundland and Labrador, women's incomes were 57% of men's.[xx]

Across all age groups, women's average total income is lower than men's, but the gap was smallest in the youngest age range, where women aged 16 to 19 have incomes of about 90% of men in the same age group. But, the income gap is greatest for those aged 55 to 64. For these women, average total income is only 55% of men's—$29,400 compared with $53,400.[xxi]

The income gap between men and women may close in the future, but for decades to come, women, and especially single women, will continue to experience financial hardship due to lower income.

Income supports inadequate

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.[xxii]

The 2011 non-refundable Caregiver Tax Credit was a positive step forward in recognizing informal caregivers. But, making the tax credit refundable would help ensure that even those Canadians without taxable income could receive financial recognition of their contribution.

Statistics Canada reports that as of 2010 an astounding 159,400 eligible Canadians over 65 are not collecting GIS benefits.xxiii Effectively, almost 12 percent of eligible Canadians are not receiving GIS payments due in large part to the complexity of the application process. In recent years, CARP has advocated for auto-enrolment of GIS and OAS to prevent people from missing the benefits - such as through income tax returns. CARP welcomes the federal government's promise in the 2012 Budget to implement proactive enrolment of GIS and OAS starting in 2013. Such measures are important in helping close the income gap for many lower income seniors.

CARP recommends that the federal government 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.

3. Pensions

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.[xxiv] 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 (PRPP's) is meant to address the gap.

In 2010, the federal government committed to working with the provinces 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.

With many provinces sharing the original commitment, including Ontario's reiteration in its 2012 Budget, now is the time for the federal government to gather support from the provinces and lead the way to CPP enhancement for all Canadians.

Inadequacy of private savings

Approximately 36% of Canadians in 2011 stated a lack of confidence in their ability to save for retirement, compared to 18% in 2010. And, 42% were less optimistic about the financial markets in 2011 compared to 2010.[xxv]

RRSPs have not been the answer to retirement security and another voluntary option such as the PRPPs is unlikely to improve savings. Canadians now contribute $33.9 billion to RRSPs, which is only 5.1% of the total room available to eligible tax-filers. In effect, Canadians already leave $630 billion dollars of RRSP contribution room untouched. More importantly, while the number of eligible taxpayers has increased, fewer Canadians contributed to RRSPs in 2010 than did in 2009.[xxvi]

CARP 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.

PRPPs are not the answer

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 an 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 12 years experience, Australian Super Fund Review[xxvii] 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. PRPPs may have the same disadvantages.

CPP enhancement

CARP has consistently called for a supplementary Universal Pension Plan modeled on the CPP with mandatory enrolment, utilizing the existing payroll deduction mechanism, professional management, a governance role for the members, a mandate that is focused entirely on optimal performance and independence from government or any single employer. Defined benefits (DB) are also essential to achieving all of these goals.

As one of the largest pension funds in the world, the fully funded CPP should be 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. A modest 10% increase - from 25% of Yearly Maximum Pensionable Earnings (YMPE) to 35% - would result in a maximum additional benefit of $4,830/year and cost a maximum of $45/month payable by each employee and employer for those earning the maximum pensionable earnings [using 2011 numbers]. A 10% enhancement of the CPP would only cost $18/month for low income earners. Even doubling the CPP, from 25% YMPE to 50%, would result in maximum monthly premiums for employees of $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 $24,150 per year - $12,075 more per year than the current maximum.

CARP recommends that the federal government to return to its 2010 commitment to work with the provinces to enhance the CPP, to ensure that no one falls into the retirement security gap.

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.

References

[i] Statistics Canada, Census Data: http://www12.statcan.gc.ca/census-recensement/2006/dp-pd/tbt/Rp-eng.cfm?TABID=1&LANG=E&A=R&APATH=3&DETAIL=0&DIM=2&FL=A&FREE=0&GC=01&GID=844033&GK=1&GRP=1&O=D&PID=94206&PRID=0&PTYPE=88971,97154&S=0&SHOWALL=0&SUB=0&Temporal=2006&THEME=81&VID=15477&VNAMEE=&VNAMEF=&D1=0&D2=0&D3=0&D4=0&D5=0&D6=0

[ii] CARP Poll: http://www.carp.ca/wp-content/uploads/2012/02/OASHealth-Care-Quality-Poll-Report.pdf

[iii] CARP Poll: http://www.carp.ca/wp-content/uploads/2012/07/Aging-At-Home-Report2.pdf
[iv] Old Age Security Program – 10[th] Actuarial Report, 2009: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/oca/OAS10_e.pdf
[v] CARP Poll: http://www.carp.ca/wp-content/uploads/2012/02/OASHealth-Care-Quality-Poll-Report.pdf
[vi] CARP Poll: http://www.carp.ca/wp-content/uploads/2012/07/Aging-At-Home-Report2.pdf
[vii] Conference board of Canada: http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx
[viii] Campaign 2000, *2010 Report Card on Child and Family Poverty in Canada: 1989 – 2010,* 2010.
[ix] Statistics Canada: http://www.statcan.gc.ca/pub/11-402-x/2011000/pdf/seniors-aines-eng.pdf
[x] Food Banks Canada: Fairness for Canadian Seniors - A Reality Check on Pensions Food Banks Canada, September 2010.
[xi] Canadian Association of Social Workers: http://www.casw-acts.ca/sites/default/files/policy_statements/Reforming%20Old%20Age%20Security%20Program%20-%20A%20Social%20Work%20Perspective.pdf
[xii] Ibid.
[xiii] Statistics Canada: http://www.statcan.gc.ca/daily-quotidien/081021/dq081021a-eng.htm
[xiv] Rothgang, Heinz, Providing Long-term Care in an Ageing Society-How shall we organize it?, Queen's University Policy Conference, August 2011.
[xv] Canadian Women's Foundation: http://www.canadianwomen.org/facts-about-poverty#7
[xvi] Ibid.
[xvii] Statistics Canada: http://www12.statcan.gc.ca/census-recensement/2006/dp-pd/tbt/Rp-eng.cfm?TABID=1&LANG=E&A=R&APATH=3&DETAIL=0&DIM=2&FL=A&FREE=0&GC=01&GID=844033&GK=1&GRP=1&O=D&PID=94206&PRID=0&PTYPE=88971,97154&S=0&SHOWALL=0&SUB=0&Temporal=2006&THEME=81&VID=15477&VNAMEE=&VNAMEF=&D1=0&D2=0&D3=0&D4=0&D5=0&D6=0
[xviii] Government of Canada, Evidence Number 36, October 2009, *Standing Committee on the Status of Women.*
[xix] Ibid.
[xx] Statistics Canada: http://www.statcan.gc.ca/pub/89-503-x/2010001/article/11388-eng.pdf
[xxi] Statistics Canada: http://www.statcan.gc.ca/pub/89-503-x/2010001/article/11388-eng.pdf
[xxii] 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.
[xxiii] Statistics Canada, GIS Update, Catalogue no. 75-001-X.
[xxiv] Ambachtsheer, Keith: The Canada Supplementary Pension Plan (CSPP) Towards an Adequate, Affordable Pension for All Canadians. C. D. Howe Institute May 2008
[xxv] BMO Financial Group, archived at http://newsroom.bmo.com/press-releases/bmo-annual-rrsp-study-majority-of-canadians-plann-tsxbmo-201112080751376001
[xxvi] Statistics Canada, Registered retirement savings plan contributions 2010. Archived at http://www.statcan.gc.ca/daily-quotidien/111202/dq111202b-eng.htm
[xxvii] http://www1.carp.ca/PDF/Australia%20example1.pdf Redesigning Choice and Competition in Australian Superannuation