

**GROWING OLDER, WORKING LONGER: THE NEW FACE
OF RETIREMENT**

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I called this talk "Growing Older, Working Longer" because I think that's the new face of retirement these days. Retirement is no longer a point in time when you stop working for pay and start spending your time doing all those things you always wanted to do. Retirement has become much more of a process – a period of time when people may stop working at a long-term career-type job and perhaps switch to some other kind of work – maybe easing out of paid work gradually.

In fact, many people who took early retirement have now gone back to work. Some are working as consultants for the same employers they had before; some switched to part-time from full-time; some started their own businesses. And while many of the people who are doing this simply wanted to stay active, increasing numbers of people have found their retirement savings are not enough.

They need to supplement pensions with earnings – especially because people are now living longer. After all, if you retired at age 55, you could still have another 30 years ahead of you – perhaps even one-third of your life to spend in "retirement." Stock market downturns earlier this decade may have undermined the value of your retirement savings. Your workplace pension - if you're lucky enough to have one – may not be indexed for inflation. Your spouse or partner may have passed away and you're left with less money than you thought you'd have.

I want to look at some of these issues this morning. How are we doing with pensions? And particularly, how are women seniors doing and what are key pension issues for them? Will people be forced to go on working when they might have preferred to retire?

Pensions are the deferred wages of workers. By setting aside part of their compensation during working years, workers can draw on that income in old age to support themselves and their families in retirement. In fact, access to a decent pension allows a worker to decide to leave the paid labour force and enjoy a period of leisure. That's the reward after years of hard work.

It wasn't always so. In the early 1900s, when farming was still a major source of employment, many people carried on working until their health gave out or the grim reaper showed up. Retirement was only possible for a tiny minority of people who had managed to get together enough savings to support themselves in old age -- or whose families could support them when they were no longer able to work for pay. Many people were forced to "retire" because they were laid off or were in poor health. And many of them spent the rest of their lives in poverty.

Being able to spend senior years in leisurely comfort has been described by one writer as "one of the great achievements of the affluent democracies in the 20th century." Essentially, the expansion of mandatory, universal pension schemes "democratized" access to retirement, so that it was no longer the privilege of the few.

Over the past 20 years or so, we've done quite well in improving economic security for seniors - thanks largely to public pension programs such as Old Age Security (OAS) the Guaranteed Income Supplement (GIS) and the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) in Quebec.

After taking government transfers and taxes into account, about 6% of people aged 65 or older lived in low income in 2005. That compares with a low-income rate of almost 10% ten years earlier in 1996. The low-income rate for all Canadians in 2005 was

nearly 11% and the rate for young people under age 18 – usually referred to as the "child poverty rate- was just under 12%. In other words, the low-income rate of seniors is now actually lower than that of the general population.

But the low-income rate for senior women is still double that of senior men. Worst of all, the low-income rate for senior women on their own is now up to more than 20%. That was the rate in 2005 and it was more than three percentage points higher than it was the year before. That is shocking and it is really inexcusable.

Many of those women are widows whose income drops significantly when their husbands are no longer there. And many of them didn't work outside the home when they were younger, so they weren't able to accumulate retirement savings for themselves. While these women will qualify for Old Age Security and the Guaranteed Income Supplement, it's clear these programs are not adequate.

It's urgent that we do something to address the needs of these women. At the very least, I think we need to increase the amount of OAS and GIS combined to bring these two programs up to the low-income level. At the moment, the average incomes of older women on their own are about \$2,200 below Statistics Canada's after-tax low-income cut-off. In other words, even after taking into account government transfers and tax credits, the incomes of these women fall short.

Old Age Security and the Guaranteed Income Supplement in effect represent a guaranteed annual income for seniors. But the guarantee is too low. Are these programs secure? That's also a question we need to ask. OAS and GIS are funded from the tax revenues of the federal government so the federal government alone can make changes to

these programs. From time to time, for example, the government has implemented ad hoc increases in the GIS. That's the good news.

The bad news is these programs are vulnerable if the federal government wants to cut costs. You may remember a few years ago the federal government (then under the Liberals) proposed to get rid of OAS and GIS and replace them with one income-tested program called the Seniors' Benefit. The income test was to be based on family income. So instead of getting an OAS benefit in her own name, a married woman's right to the proposed seniors' benefit would depend on her husband's income.

The proposal caused an uproar and in the end the government abandoned the idea. But the experience underlines the fact that we need to be vigilant and to make sure this first pillar of the retirement income system is not undermined or changed to the detriment of seniors, and particularly that it's not changed in ways that would undermine the economic autonomy of women.

Let me just take a moment here to mention pension income splitting. As I'm sure you know, this is a measure that was introduced in the Harper government's 2007 budget and is now in effect for the 2007 tax year. It is also something that has been promoted as helping senior couples – and being particularly beneficial to women. In fact, the opposite is likely. Canada's tax system is based on the taxation of individuals. For married or common-law couples, each spouse or partner files a separate tax return. Income splitting, whether of pension income or total incomes, allows the higher-income spouse or partner – generally the husband – to transfer some of his tax burden to the lower-income spouse or partner – generally the wife.

In other words, the male partner reduces his tax burden, while the female partner's tax burden is increased. The splitting is only advantageous if one spouse is in a lower tax bracket than the other, so that transferring some of the income to the spouse in the lower tax bracket will result in the income being taxed at a lower rate than if the higher-income spouse or partner declared the income for tax purposes. The bigger the difference in income between the spouses or partners, the greater the tax savings. Couples where one spouse is in a high tax bracket and the other has little or not income will benefit the most.

The implication is that this measure will reduce the family's total tax burden so both partners will benefit. The underlying assumption, of course, is that both spouses or partners have equal access to the family income. But there's increasing evidence from research that this is not always the case.

It's also important to be aware that the lower-income spouse, who gets to pay the tax on the higher-income spouse's pensions, does not have a right to any of the pension income. This is simply a paper transaction on the tax return. In fact, she may lose certain tax credits based on individual income - like the age amount. Even more significant, unless the amounts transferred are calculated carefully, it could even result in the lower-income spouse being subject to the OAS clawback. In other words, women who are generally the lower-income spouses could possibly lose their entitlement to full OAS as a result of pension income splitting but will not be entitled to receive any of the pension income that is being split for tax purposes. And of course, pension income splitting does nothing at all to help those seniors who need help the most – senior women who are on their own.

We often hear that women coming up to retirement in the future will be much better off than today's seniors, because they will have spent most of their adult lives in paid employment. It's true that the vast majority of pre-retirement women are now working outside their homes. In fact, the latest numbers show almost 80% of women in the main childbearing age group of 25 to 44 are now employed in the paid work force. But whether they'll be better off in retirement is another question.

First of all we have to ask what kind of jobs these women are doing. Fully 40% of women who have paid jobs are now employed in what we call "non-standard work." They are working in part-time jobs, in contract, temporary or casual work, in self-employment working for themselves, or in several different jobs with multiple employers. These are precarious jobs. There is often no job security; pay is generally low; and there are almost certainly no benefits like pensions.

These women will not be able to save up for their own retirement and they won't have a workplace pension plan either. Their only saving grace is that they will be covered by the Canada Pension Plan. But a CPP retirement pension will only give them about 25% of what they earned before they retired. And since their earnings were so low, that will not be very much. In other words, because the CPP is an earnings replacement plan, those with lower earnings will receive lower pensions from the program.

For example, the average monthly retirement pension being paid to women who retired in May 2005 (the latest information I was able to get on this) was only \$333. The average monthly retirement pension being paid to men who retired in the same month was \$529.

We need to do something about this too. The Canadian Labour Congress, for example, is now calling for the replacement rate of CPP pensions to be doubled – from 25% to 50%. While that would help, it still doesn't get around the fact that people with low earnings get low pensions from the plan. Such a move, I think, would have to be combined with an increase in OAS and/or GIS.

Is the CPP secure? That's another question we're still hearing – even after major changes in the financing of the program were made in 1998. Well, you may have heard that the Chief Actuary has given the CPP a clean bill of health. He says it's in very good shape and will remain so for the next 75 years. By that time, I think the baby boomers will no longer be with us.

When the financing of the CPP was changed in 1998, the government set up an investment fund. Contributions from employers and employees that are not needed right away to pay the benefits are directed to the fund which is being invested in the stock market. There is now more than \$121 billion in the fund and it earned an average return of 13.6% in the four year period from 2004 to 2007. The fund is expected to reach \$250 billion by 2016.

Many people seem to think their future pensions are going to be paid from earnings on the investment fund. But that's not the case. The investment earnings on the fund will be used to supplement contribution revenue, but not until around 2021 – the peak of the baby boomer retirements. Even then, only a portion of the investment earnings will be needed to pay the promised benefits.

By 2050, for example, it is projected that about 29% of the fund's investment earnings will be needed to supplement contribution revenue. In other words, the CPP will

remain essentially a pay-as-you-go plan. That means quarterly ups and downs of the fund's investment returns really have little meaning for the security of future pensions, even though the media tend to highlight any downturn in investment returns implying that pensions are at risk.

But we still have to keep watch over the CPP and make sure it's protected. You may remember, in its first budget after being elected, the Harper government suggested that any surplus at year-end larger than \$3 billion could be directed to the CPP/QPP "in order to make them more equitable for young Canadians and improve economic competitiveness." Everybody was surprised by the move. The CPP combined employer/employee contribution rate is 9.9% of earnings up to a limit. That is actually much lower than contribution rates for public pension programs in almost all other industrialized countries. The United States combined contribution rate for Social Security has stood at 12.4% of covered earnings for many years. The combined employer/employee contribution rates in all OECD countries averaged 16.3% as long ago as 1991.

What was the government up to here? As many people pointed out, if the federal government started putting funds into the CPP, what would prevent it from taking funds out at some point in the future? Contributing additional funds to the plan, as the government had proposed, would have required an amendment to the CPP and the approval of two-thirds of the provinces having two-thirds of the population. Provinces also expressed their objections to the proposal. In the end, the Harper government changed its mind and decided not to proceed with the proposal.

But we should be aware that the Reform Party – the predecessor of the Harper Conservatives – was in favour of abolishing the CPP and replacing it with mandatory "Super-RRSPs" or individual accounts. We'll need to keep our eyes on this issue, too. Whatever they do though, I'm pretty sure it would not affect those people who are already getting their CPP retirement pensions.

The leading edge of the baby boom generation is now reaching its late 50s, so it's not surprising that retirement has now become a major preoccupation. But there's growing uncertainty about how and when it might happen and what form it might take. Stock market gyrations at the beginning of this decade pushed many workplace pension plans into deficit positions and undermined the value of individual retirement savings. Many people are no longer sure about just when they'll be able to stop working, or even if they'll ever be able to stop.

At the same time, governments in almost all the industrialized countries are concerned about the growing cost of pensions as more and more people reach retirement age. They're also worried that there will be a shortage of workers - with serious consequences for the economy - when the big generation of baby boomers retires.

Canada is now under pressure from international bodies like the OECD to get rid of early retirement incentives, to abolish mandatory retirement and to take other measures to persuade people to go on working so we can increase the average age of retirement. In the US, the age of eligibility for Social Security is being increased gradually to reach age 67. In the UK, the government has introduced huge financial bonuses for people who will put off claiming their state old age pension and the age of eligibility for public pensions will be raised to 68. There was even talk of increasing it to age 70. But the Trades Union

Congress pointed out that if they did that, many people would die before they became eligible for a pension. The TUC emphasized that the people who would lose out would be poorer people living in depressed areas of Britain where life expectancy is lower than it is in more wealthy areas.

In Canada, as elsewhere, mandatory retirement is being abolished; early retirement incentives are being abandoned; and there's growing concern that people may be forced to go on working as they grow older - whether they want to or not.

Responsibility for retirement provision is being shifted on to individuals and away from the collective responsibility to provide for all citizens that has been the hallmark of our retirement income programs. Policy makers talk about "increasing choice" and giving people a "better range of alternatives" as they grow old. But that may be sugar-coating the pill. The bottom line is they want people to go on working longer

The danger is that if they will not do it voluntarily, older people may be forced to go on working against their will. For instance, it could be done by raising the age of eligibility for public pension programs, as the United States and other countries have done.

But raising the age of eligibility for public pensions such as Old Age Security and the Canada Pension Plan - as some of the doomsayers have suggested - would hit hardest at lower-income elders who must rely on these programs as their major sources of retirement income. They would be forced to go on working until they qualified for benefits. Higher-income earners, who are more likely to belong to workplace pension plans or have RRSP savings, get most of their retirement income from these other sources so they will always have more options and more choices about when to retire.

We shouldn't fool ourselves that getting rid of mandatory retirement will mean that people will no longer be "forced" to retire against their will. The majority of Canadians are already "forced" to retire, but not because of mandatory retirement. In fact, the latest numbers from Statistics Canada for the year 2005, show only 10% of retirees (aged 55 or older) had retired because of mandatory retirement. But 24% had retired because of personal or family responsibilities, another 23% had retired because of their personal health, and 8% had retired because they were laid off.

Many women have to retire early – whether they want to or not - to care for older family members. And I must say here that I really have a problem with those people who say banning mandatory retirement helps women. People say that since women often have to interrupt their participation in the paid work force because of children or family responsibilities, letting them go on working past the usual retirement age helps them build up a better pension and reduce their rates of poverty in old age.

Well most women don't belong to a pension plan at work. And most don't have money left over to save in RRSPs because their earnings are too low. Continuing to work is not likely to improve their pension income by very much. But I have a much more fundamental problem with the idea. In effect, we would be telling women that if they want a decent income in old age, they'll just have to go on working until they can afford to retire. We should be addressing this problem by making improvements in the public pension plans so women who must undertake this unpaid caregiving on behalf of all of us are not penalized when they reach their older years.

But we should be very concerned about the trend to move away from collective responsibility and societal concern for Canada's older population, shifting responsibility

to individuals to try and make it on their own. Many of them won't be able to do that and we could face growing rates of senior poverty in the future, reversing the gains we've made over the past 20 years or so.

For sure this is going to be a political issue. But it is worth noting here that, as elders form an increasing percentage of the population, their influence on public policy may well increase as they exercise their democratic options. In the meantime, the new face of retirement will continue to evolve - with or without government intervention.

We will need to keep a watchful eye on the process to make sure the much-vaunted freedom of choice about life-course and retirement really does offer the free choices Canadians want to have without replacing the collective responsibility that ensures all citizens are equally protected.