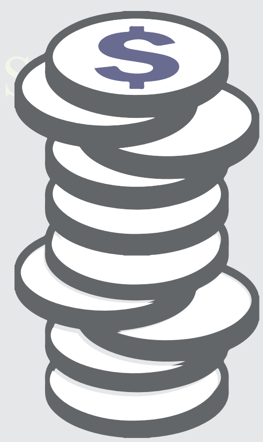
National Seniors Strategy Evidence Informed Policy Brief

Ensure that Older Canadians do not Live in Poverty by Improving Their Income Security

Setting the Context:

Supporting older Canadians to remain independent and engaged citizens will require a concerted effort to strengthen existing and future income and savings opportunities. Over the last 40 years, we have made great strides in reducing poverty rates among older Canadians; falling from one of the highest rates of poverty among older adults in Organization for Economic Co-operation and Development (OECD) countries, to one of the lowest.[1] But we still have some way to go.



Currently, there seems to be clear evidence that older Canadians remain some of the most financially vulnerable members of our communities. Indeed, Canada's Federal Poverty Reduction Plan (2010) lists older adults as one of the nine demographic groups most vulnerable to low-income rates.[2] A recent report by Statistics Canada on Canadian Income further noted that of those included 606,000 older Canadians live "in low income" according to the after-tax low income measure (LIM-AT) (see Tables 1 and 2 for LIM-AT income thresholds and median LIM-AT by province).[3]

Table 1. Annual LIM-AT Cut-Offs by Household Size in Canada[4]

Household Size	After-tax low income threshold ($)
1 person	19,460
2 persons	27,521
3 persons	33,706
4 persons	38,920

Table 2. Annual Median LIM-AT for Families and Unattached Individuals by Province[5]

Province	Median LIM-AT of families of two or more ($)	Median LIM-AT of unattached individuals ($)
Newfoundland and Labrador	64,500	22,100
Prince Edward Island	61,100	23,300
Nova Scotia	62,900	26,300
New Brunswick	59,300	23,200
Quebec	64,000	26,200
Ontario	73,700	26,600
Manitoba	68,100	27,400
Saskatchewan	77,300	32,000
Alberta	92,300	36,500
British Columbia	72,200	25,200
CANADA	**71,700**	**27,300**

In order to reduce the risk of poverty amongst older Canadians, specific federally administered and publically-funded income supports known as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) for individuals 65 and better have been introduced in Canada over the past few decades. These two programs complement the federally administered and contribution-based Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) that all working Canadians are expected to contribute towards throughout their lifetime. (See Table 3 for average OAS, GIS, and CPP/QPP payouts in Canada).

Table 3. Annual OAS, GIS, and CPP/QPP Payouts in Canada

Income Support Vehicle	Median LIM-AT of families of two or more ($)
OAS (Maximum Monthly Payment) * [6]	569.95
GIS (Maximum Monthly Payment)**	Single Individual: 772.83
	Attached Individual: 512.44
CPP/QPP (Average Monthly Payment) [7]	640.23
QPP (Maximum Monthly Payment) [8]	1065.00
Annual Total Single Individual	23,795.76
Annual Total Attached Individuals	**20,671.04**
Annual Maximum Quebec Single Individual (QPP)	**28,893.00**
Annual Maximum Attached Individual (QPP)	**25,768.68**

* - Regardless of marital status and based on an individual annual income of $118,055

** - Amounts based on also receiving full OAS

While OAS and GIS deliver an indexed maximum benefit of about $14,000 annually depending on marital status at the age of 65, and the CPP/QPP currently pay an indexed maximum benefit at age 65 of about $11,000, this does not mean Canadians can each count on getting a $25,000 indexed pension from government sources.[9] This is due to the fact that the income-tested GIS benefit is quickly reduced by other income (including C/QPP) while the OAS benefit gradually reduces when retirement income exceeds a threshold of about $65,000. Furthermore, the average eligible benefit paid by C/QPP is about half the maximum. As a result, a typical retiree born in Canada with no other sources of income won't receive $1,200 – $1,300 per month from government sources. For recent immigrants, this amount will be significantly lower for two reasons: 1) residency requirements to qualify for full OAS benefits; and 2) shorter or non-existent C/QPP contribution periods will also affect how much they will be eligible to receive. According to OECD data, federal public supports, such as CPP/QPP, OAS and GIS, have come to account for 39% of gross income for older Canadians – compared to the OECD average of 59%; while their own capital resources and private pensions account for 42% of gross income – compared to the OECD average of 18%.[10] Taken together, this data outlines that older Canadians are having to increasingly rely much more on their own capital resources and private pension schemes than ever before in comparison to most other OECD countries.

While there has always been a need for Canadians to accumulate private retirement savings, the last few decades of economic turmoil has meant a significant decline in the number of Canadians participating in private and workplace pension plans. Currently, 80% of Canada's 3.2 million federal and provincial public sector workers participate in defined-benefit pension plans that typically provide targeted income replacement of 70% of final earnings integrated with Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) benefits after a 35-year career.[11] For those within Canada's private sector, however, less than 30% of employed workers have a pension plan.[12] While increasingly, private-sector pension plans are moving towards defined-contribution plans, even private-sector defined-benefit plans typically offer less generous benefits than in the public sector, and typically have longer qualification periods for early-retirement benefits. Furthermore, if provided at all, indexing typically is ad hoc and occurs at rates below inflation.[13]

The reality is that 11 million Canadians now do not have access to workplace pension plans and thus have no choice but to rely on available government administered income supports and their private savings.[14] While the use of private savings vehicles like Registered Retirement Savings Plans (RRSPs) and Tax Free Savings Accounts (TFSAs) have been promoted, many Canadians are still not able to take full advantage of them. Understanding the above in an economic climate where an estimated 2.8 million Canadians are currently unemployed or underemployed, compounded by the fact that most new job creation is less secure (i.e. part-time, temporary, or self-employment), means we placing even more of our future older Canadians at risk of living below our established low-income cutoffs.[15]

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CANADA	**71,700**	**27,300**

Table 2. Annual Median LIM-AT for Families and Unattached Individuals by Province

Income Support Vehicle	Amount per Month/Year ($)
OAS (Maximum Payment) * [18]	569.95/6839.40
GIS (Maximum Payment)**	Single Individual: 772.83/9273.96
	Attached (Spouse/Common-law): 512.44/6149.28
CPP (Average Payment) [19]	640.23/7682.76

* - Regardless of marital status and based on an individual annual income of $118,055
** - Amounts based on also receiving full OAS

What are the Issues?

1. Certain Older Canadians Remain Particularly Financially Vulnerable.

Evidence overwhelmingly demonstrates that single, unattached older adults as well as older women remain the most financially vulnerable members of our society. We know that 6.2% of attached versus 28.5% of single older adults in Canada are considered low-income according to the LIM-AT.[20] Additionally, older Canadian women, "are twice as likely to live in poverty as men"; with 30% of older Canadian women living below the poverty line.[21] This striking difference can be explained largely due to a greater likelihood of gaps in their workforce participation while at the same time, experiencing longer life expectancies. Life expectancy difference also helps to explain Canadian also represent a significant portion (70%)[22] of the single older adult category mentioned above. Due to prior workforce participation gaps, older Canadian women are therefore far more reliant on publically- funded, federal income supports such as GIS and OAS; versus contribution dependent pension plans like Q/CPP and private pension schemes. In fact, 30% of an older Canadian woman's total income is supported by OAS and GIS, compared to 18% of their male counterparts'.[23] Though supports such as GIS do take into account marital status in an effort to recognize gender inequity in retirement income, the fact that 30% of older Canadian women still live below the poverty line demonstrates that marital status considerations do not adequately offset the gender gap. Inequity of this scale, therefore, remains a cause for great concern and should be addressed in future income support funding reforms.

2. Current Retirement Savings Vehicles are not Sufficient to Support Most Older Canadians.

Mounting evidence suggests that current retirement savings vehicles and public pension plan programs are also falling short in supporting many older Canadians as they age. As a way to supplement federally administered income support programs such as CPP, OAS and GIS, personal savings mechanisms have been introduced over the past few decades such as RRSPs and TFSAs. The challenge with these personal private savings vehicles is that only individuals with higher than average annual incomes can reasonably contribute to realize any meaningful income support later in life. Beyond the inherent inequity of relying on the aforementioned private savings vehicles, pension plans are often upheld as being far superior towards an individual's return on investment. The C.D. Howe Institute, the Canadian Centre for Policy Alternatives and others have articulated that, "as a retirement savings vehicle, pension plans are superior to RRSPs in every practical way"[24] principally as they do not rely on private investment products like mutual funds which have some of the highest management fees for Canadians compared to the rest of the world In general. In addition to public plans such as OAS and GIS being accessible to all Canadians, enhanced public pension plans are being promoted as more efficient retirement savings vehicles for Canadians given their ability to reduce administrative costs, the fact they are protected from creditors, require no self-management of funds, and provide greater tax-deferral room for older adults.[25]

However, while being considered a better alternative to personal private savings vehicles, our public pension plan arrangements are not ideal in their current state. That OAS benefits are considered taxable income – meaning the federal government recoups a portion of what it pays out when a single individual may only take home a maximum combined OAS and GIS monthly payout of $1,342.78 – remains a cause for concern. Additionally, effective April 2023, older Canadians will have to wait an additional two years to access their GIS and OAS benefits as legislation was passed that will raise the age of eligibility from 65 to 67.[26] While some proponents argue that this will not be a significant issue as many Canadians are expected to continue working beyond the age of 65, but for others who are more likely to perform manual labour and want or need to retire earlier, it is expected to put more older individuals before the age of 67 at risk of living in poverty.

Evidence-Based Policy Options to Consider

1. Enhance Existing Public Pension Vehicles to Ensure No Older Canadian Lives in Poverty.

Given the personal and societal risks that exist with having more older Canadians unprepared to meet their future financial obligations, the federal, provincial and territorial governments should consider how best to enhance public pension vehicles; particularly as they relate to vulnerable groups such as older adults who are single and women. While a number of arguments have arisen for enhancing contributions and payouts that could occur through the well-respected and managed CPP/QPP program, the Canadian Labour Congress notes as part of its Retirement Security for Everyone campaign, that through simply increasing the maximal GIS payout by 15%, we would immediately lift all older adults out of poverty. The Federal government should therefore take a leadership role in working with the provinces and territories to officially review its possible options for a cost-effective and equitable way of financially supporting older Canadians. These consideration must also recognize that our current experiments of enhancing private savings vehicles have thus far only proven beneficial for Canadians who already have higher than average income.

[1]Government of Canada; Hoeppner, C. (2010). Federal poverty reduction plan: Working in partnership towards reducing poverty in Canada – Report of the standing committee on human resources, skills, and social development and the status of persons with disabilities. Available at: http://www.parl.gc.ca/content/hoc/Committee/403/HUMA/Reports/RP4770921/humarp07/humarp07-e.pdf

[2]Government of Canada; Hoeppner, C. (2010). Federal poverty reduction plan: Working in partnership towards reducing poverty in Canada – Report of the standing committee on human resources, skills, and social development and the status of persons with disabilities. Available at: http://www.parl.gc.ca/content/hoc/Committee/403/HUMA/Reports/RP4770921/humarp07/humarp07-e.pdf

[3]Statistics Canada. (2014). Canadian income survey, 2012. Statistics Canada Catalogue, no. 11-001-X. Available at: http://www.statcan.gc.ca/daily-quotidien/141210/dq141210a-eng.pdf

[4]Statistics Canada. (2013). Table 3.2 Low-income measure thresholds (LIM-AT, LIM-BT, LIM-MI) for

households of Canada, 2010. Available at: https://www12.statcan.gc.ca/nhs-enm/2011/ref/dict/table-tableau/t-3-2-eng.cfm

[5]Statistics Canada. (2014). Canadian income survey, 2012. Statistics Canada Catalogue, no. 11-001-X. Available at: http://www.statcan.gc.ca/daily-quotidien/141210/dq141210a-eng.pdf

[6]Government of Canada. (2015). Old Age Security payment amounts. Available at: http://www.servicecanada.gc.ca/eng/services/pensions/oas/payments/index.shtml

[7]Government of Canada. (2015). Canada Pension Plan Payment amounts. Available at: http://www.servicecanada.gc.ca/eng/services/pensions/cpp/payments//index.shtml

[8]Government of Quebec. (2015).

[9]Pierlot, J. (2008). C.D. Howe Institute: A Pension in Every Pot: Better Pensions for More Canadians. Toronto; ON.

[10]OECD. (2013). Pensions at a glance 2013: OECD and G20 indicators. Available at: http://www.oecd.org/canada/OECD-PensionsAtAGlance-2013-Highlights-Canada.pdf

[11]Pierlot, J. (2008). C.D. Howe Institute: A Pension in Every Pot: Better Pensions for More Canadians. Toronto; ON.

[12]Pierlot, J. (2008). C.D. Howe Institute: A Pension in Every Pot: Better Pensions for More Canadians. Toronto; ON.

[13]Pierlot, J. (2008). C.D. Howe Institute: A Pension in Every Pot: Better Pensions for More Canadians. Toronto; ON.

[14] Canadian Union of Public Employees (CUPE). (2015). Conservative CPP scheme an ineffective half-measure, offers little for Canadian workers. Available at: http://cupe.ca/conservative-cpp-scheme-ineffective-half-measure-offers-little-canadian-workers

[15]Canadian Labour Congress. (2015). Retirement security – A Better Choice Campaign. Available at: http://betterchoice.ca/

[16]Statistics Canada. (2013). Table 3.2 Low-income measure thresholds (LIM-AT, LIM-BT, LIM-MI) for households of Canada, 2010. Available at: https://www12.statcan.gc.ca/nhs-enm/2011/ref/dict/table-tableau/t-3-2-eng.cfm

[17]Statistics Canada. (2014). Canadian income survey, 2012. Statistics Canada Catalogue, no. 11-001-X. Available at: http://www.statcan.gc.ca/daily-quotidien/141210/dq141210a-eng.pdf

[18]Government of Canada. (2015). Old Age Security payment amounts. Available at: http://www.servicecanada.gc.ca/eng/services/pensions/oas/payments/index.shtml

[19]Government of Canada. (2015). Canada Pension Plan Payment amounts. Available at: http://www.servicecanada.gc.ca/eng/services/pensions/cpp/payments//index.shtml

[20]Statistics Canada. (2014). Canadian income survey, 2012. Statistics Canada Catalogue, no. 11-001-X. Available at: http://www.statcan.gc.ca/daily-quotidien/141210/dq141210a-eng.pdf

[21]http://canadianlabour.ca/issues-research/did-you-know-senior-women-are-twice-likely-live-poverty-men

[22]Bazel, P. & Mintz, J. (2014). Income adequacy among Canadian seniors: Helping singles most. The School of Public Policy, University of Calgary SPP Research Papers, 7(4), pp1-17. Available at: http://www.policyschool.ucalgary.ca/sites/default/files/research/mintz-bazel-seniors-income.pdf

[23]http://canadianlabour.ca/issues-research/did-you-know-senior-women-are-twice-likely-live-poverty-men

[24]C.D. Howe Institute. (2008). A pension in every Pot: Better Pensions for More Canadians. Available at: https://www.cdhowe.org/pdf/Commentary_275.pdf

[25]C.D. Howe Institute. (2008). A pension in every Pot: Better Pensions for More Canadians. Available at: https://www.cdhowe.org/pdf/Commentary_275.pdf

[26]Government of Canada. (2015). Ages of eligibility for Old Age Security and pension benefits. Available at: http://www.servicecanada.gc.ca/eng/services/pensions/oas/changes/age/index.shtml

[27]http://www.canadianlabour.ca/action-center/retirement-security-everyone/retirement-security-reform-2-increase-oasgis-benefits