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Crisis? What Crisis?

Older readers will remember a classic TV series from the early 1960s, *The Twilight Zone.* In one memorable episode, a gangster dies and finds inexplicably that he ends up in heaven. The life he lived on Earth resumes, except now he gets all the women he wants without trying, wins every time he plays the slots, sinks every ball when he plays pool, and so on. You get the picture. He is delighted at first, but after a few days of this he becomes totally bored and goes back to the angel who welcomed him to the afterlife. He tells the angel he doesn't think he belongs in heaven; maybe he would be better off in the "other place." The angel responds with a diabolical laugh and says this *is* the other place.

The same warning applies to retirement. It might be the easy life we think we yearn for, or we might find it is the other place. Being freed of work obligations after 40 or more years of employment can create the same gleeful anticipation we used to feel on the last day of school before summer vacation but, then again, it might bore us literally to death. The primary retirement concern for most of us, though, is financial in nature. Without a substantial inflation-protected pension, retirement itself may consist of endless financial anxiety, limited resources, and shattered dreams. To avoid this, we may delay retirement for years and even over-save to ensure this scenario does not come to pass.

The point of this book is to give the reader enough information to stop worrying. Fear-mongering media stories in recent years have been overblown. While it's true that not every retired Canadian will be assured of wintering in Florida and golfing at a private club, the majority of Canadians will discover that their retirement years promise more of the hoped-for joys and comforts than these stories suggest. Why? Because our studies indicate that, when it comes to being prepared for retirement, many of us are better off than we think.

To reach our retirement goals, however, we may have to rely less on governments than we used to. In a speech to the World Economic Forum in Davos on January 16, 2012, Prime Minister Stephen Harper signalled that changes were coming to Canada's retirement income system. "Our demographics constitute a threat to the social programs and services that Canadians cherish," Harper declared. "For this reason, we will be taking measures in the coming months to ensure the sustainability of our social programs and fiscal position over the next generation." Later, the Harper government, through Finance Minister Jim Flaherty, confirmed that the retirement age for Old Age Security (OAS) pensions would be pushed gradually back from 65 to 67.

A Delay of the "Golden Years"?

The announcement provoked a violent reaction. The Canadian Association of Retired Persons (CARP) immediately went on the offensive with a campaign that evoked memories of 1985, when seniors managed to make the Mulroney government retract its proposal to de-index the OAS pension. While essentially calling for the Harper government to keep its hands off the OAS, CARP claimed "the golden years will be delayed for many Canadians." CARP spokesperson Susan Eng said in a TV interview, "These are really bad economic times for people, and it makes them worry about their future and their ability to avoid poverty in old age. This is not the time to introduce something like this." Interim Liberal leader Bob Rae added, "At what point does the federal government take some responsibility about the status and position of the most vulnerable and needy people of our society?" The NDP finance critic characterized the government's proposed changes as "a slap in the face to Canadian seniors." Sid Ryan, president of the Ontario Federation of Labour, said, "We're here to basically send a message to the Tories that the senior citizens, retirees, and soon-to-be-pensioners are really ticked off with what he's attempted to do with [Old Age Security]."

Amid the rhetoric were some recurring themes. One identified seniors as the most vulnerable and needy people in society. Another is that Canadians will have trouble coping when they eventually retire.

Not all of the voices were angry ones. One person blogged, "I am a retired 63-year-old who was in the workforce for 42 years. I factored in Old Age Security as part of my income when I turn 65. I am all in favour of fiscal responsibility that hopefully ensures an OAS cheque will be in the future of my grandchildren. Why not start with 66 as the eligibility age, and in five years raise it to 67? That would at least give people a chance to adjust to the fact that they might have to stay in the workforce longer or go back to work."

As it turns out, the change in the OAS retirement age will not start to happen until 2023 and will not be fully phased in until 2029, so our stoic 63-year-old blogger need not worry. Middle-aged Canadians, however, will be wondering how they'll make up for the loss of two years of OAS pension. Even before the Harper and

Flaherty announcements, a CIBC survey of pre-retirees found that nearly half the respondents believed they were not financially prepared for retirement. In a Scotiabank survey, 44 per cent of Ontarians expected they would have to continue working after formal retirement out of financial necessity.

The Harper and Flaherty pronouncements were the opposite of what some people expected or at least hoped for. After all, we Canadians have been told repeatedly in recent years that we are in the midst of a major retirement crisis, so a warning that entitlements are going to be taken away hardly seems the right prescription.

A Major Overhaul, or a Little Tweaking Here and There?

Our national retirement angst started simmering years ago, and culminated in 2009 amid a frenzy of white papers, media reports, and submissions to government on the subject. At the time, CARP said, "Unless Canadians save more than they currently do through the Canada Pension Plan, *unacceptable levels of poverty* among older Canadians will continue" (italics added). The Conference Board of Canada declared, "Many pension leaders acknowledge that radical action is necessary to put things right for the long term." Ken Georgetti, then-president of the Canadian Labour Congress, said, "With a growing pension divide, and the foundation for decent incomes in retirement crumbling beneath working families, anxiety and anger are building." Even the habitually staid Canadian Institute of Actuaries cast aside its usual reserve to declare melodramatically, "For some time, it has been apparent that the Canadian pension system is facing dire circumstances."

Politicians finally felt the pressure to act in late 2009, when federal, provincial, and territorial finance ministers convened a special meeting in Whitehorse to grapple with the issue and propose solutions. They commissioned Jack Mintz, research director and Palmer Chair in Public Policy at the University of Calgary, to produce a report to brief the ministers. The report, summarizing papers from academic and industry experts, was released in December 2009, and its primary finding was surprising. According to the Mintz report, the Canadian pension system was in good shape and compared well with other developed countries. A little tweaking was in order, perhaps, but not a major overhaul.

Canadians remained unconvinced. Just six months later, an April 2010 survey conducted by Morneau Shepell showed that 68 per cent of employers surveyed still believed we were facing a retirement crisis. Why does this feeling persist? Anyone who waded through the various articles, reports, and white papers from the period would conclude that the anxiety and anger expressed by Canadians stemmed from the widely held perception that many of Canada's seniors are considerably poorer than the rest of the population, a fate that also awaits those who are still working. If you were planning for retirement anytime soon, this claim would sound alarming, assuming it was true. We can demonstrate, however, that it isn't true.

Are Seniors Poor?

Canada's seniors occupy a hallowed position in our society. During their employment years most paid taxes, raised families, and helped build Canada. The oldest of them even went to war on behalf of our country. Seniors are more than just old people: they are parents and grandparents. While they are in their declining years, when they should be able to enjoy leisure time, we understandably want to see them live in comfort and dignity. No one wants to neglect their welfare at this vulnerable stage of their lives. Is this what we're doing?

That's not the case when we look at healthcare expenditure. In 2009 dollars, Canadian governments spend an average of $1,800 a year on health care per Canadian aged 1 to 49. By comparison, governments spend $23,300 a year on health care per Canadian aged 85 and up, more than 12 times as much. Given that government expenditure for pre-university education amounts to $12,000 a year per child, we are investing considerably more per capita in our most elderly citizens than we do in our youth.

What about expenditures other than health care? Do seniors risk living in poverty in spite of the large amounts spent on their medical needs? To fully examine this question we need to define poverty clearly, since no internationally accepted definition exists. One Statistics Canada research paper points out, "The underlying difficulty [of defining poverty] is due to the fact that poverty is intrinsically a question of social consensus, at a given point in time and in the context of a given country. Someone acceptably well off in the standards of a developing country might well be considered desperately poor in Canada."[1] If poverty is defined as not having the income needed to purchase the necessities of life, it begs the question of what constitutes a necessity in terms of food, shelter, clothing, and other expenditures. Arriving at an absolute measure is therefore difficult.

For example, one of the authors of this book was raised in Toronto and enjoyed a happy and healthy childhood. There is little doubt, however, that his family's living standard, which seemed average to him at the time, would border on poor by today's standard. They included seven family members (plus boarders from time to time) residing in a 1,200-square-foot house, sitting in classrooms among 40 students, rare visits to a physician and no exposure to medial specialists, owning one baseball glove for most of his childhood, sharing one black-and-white TV set with the rest of the household, wearing hand-me-down clothing, and recalling no more than five visits to restaurants *in total* until his teen years. Was this poverty? Or was it normal middle-class life for the era?

A definition of poverty that gains universal consensus is likely not possible. We can say emphatically, however, that the Dickensian image of poverty is virtually non-existent in Canada today. In that light, we need to rely on relative measures. The Organization for Economic Co-operation and Development (OECD) defines poverty as having income below half of the median household disposable income for the population as a whole. Using this definition, it is interesting to compare Canada's poverty rates for seniors with those among other highly developed countries. As Table 1.1 shows, the poverty rate for seniors is more than 20 per cent in some of the most developed countries in the world, including the United States and Japan. The rate is similarly high even in European countries known for their generous social programs.

Table 1.1: Poverty Rates of Seniors (OECD Definition)[2]

U.S.	22.4%
Japan	22.0%
Switzerland	17.6%
Canada	5.9%

It may come as a surprise to find the poverty rate among Canadian seniors is just 5.9 per cent. In addition to being as little as a quarter of the poverty rate for seniors in some of the richest countries in the world, it is the lowest in the OECD among countries of comparable size or larger. (New Zealand has the lowest senior poverty rate.)

Probing the OECD numbers further, we can compare poverty rates among seniors to the population as a whole. Given that they are living on fixed incomes, seniors might be expected to be considerably poorer than working-age citizens. This is actually the case in many other developed countries, but not in Canada.

Table 1.2: Poverty Rates of the General Population Relative to Seniors

	General Population	Seniors
U.S.	17.1%	22.4%
Japan	14.9%	22.0%
Switzerland	8.7%	17.6%
Canada	12.0%	5.9%

The poverty rate among our seniors is much lower than for the population as a whole. If any age group in Canada is vulnerable and needy, it appears to be younger Canadians!

Another commonly used measure of poverty consists of the low-income cut-off (LICO) figure published by Statistics Canada. LICO refers to the cost of a basket of goods and services considered essential to avoid poverty. While Statistics Canada takes pains to emphasize that being well below the average national income does not necessarily mean one is poor in an absolute sense, LICO statistics have been used by many analysts as a proxy for poverty. If we do the same, we find that the proportion of Canada's seniors who fall below the LICO is quite small. In 2009, it was measured at just 5.2 per cent of Canadians 65 and over; the corresponding number for Canadians aged 18–64 was 10.5 per cent. Once again, the statistics show that Canada's seniors are less likely to be poverty-stricken than the general population.

This favoured status of Canadian seniors did not always exist. According to Statistics Canada, the elderly once were by far the largest group within the low-income category. In the late 1960s, a Senate Special Committee on Aging and Poverty estimated that 65.9 per cent of men and 70.1 per cent of women over 70 were classified as poor. The introduction of the Canada/Quebec Pension Plan and the GIS in the late 1960s, plus the improvements made to the

OAS benefit around the same time, changed all that. One recent study[3] found that since the 1970s no country had experienced as sharp a decline in elderly poverty as Canada. We indeed had a poverty problem among seniors around 1970, but this hasn't been true for a long time. Perceptions are often slow to change, which perhaps explains why the idea that Canada's seniors are poor seems to persist in spite of all the evidence to the contrary.

So the idea that poverty among the elderly is a significant problem in twenty-first century Canada should be laid to rest once and for all. If there is a poverty issue in this country, it is working Canadians and their families who bear the brunt of it.

Challenges for Future Retirees

If you are reading this book, your retirement is probably still ahead of you. The dynamics of retiring will not change much for perhaps the next decade. After that, retiring early with adequate income will become more of a challenge than it was for those who have already retired. Many factors that made it relatively easy to prepare for retirement in the past will start to work against us. For one, it will be harder to accumulate wealth through investments, be it in the form of home ownership or investing in stocks and bonds. These types of investments will not do nearly as well in the next 20 years as they did in the last 20.

Demographic forces are working against us. Canada has had a very high worker-to-retiree ratio since 1960, but that ratio is falling and will plunge to nearly half its present level by 2040. The economy cannot accommodate a loss of workers on this scale. As a result, governments will be forced to take various measures to keep Canadians working. Since more government revenues will be diverted to other purposes, those measures will be in the nature of disincentives to retire early rather than incentives to retire later.

The federal government will cut back on its pension programs to reduce or eliminate early retirement benefits, a process that has already started. It may also have to increase income taxes to make up for lost tax revenue when proportionately fewer Canadians are working. A tax increase or user fees will also be necessary to pay for health care, which is going to become more expensive as the proportion of seniors in the general population rises. This higher tax burden will make it more difficult to save for retirement, and even with higher taxes the higher cost of health care will crowd out other government spending, including pensions. More affluent Canadians can expect to finance a greater part of their retirement from their own resources than they do now. They will likely also have to start paying more for post-65 health care as governments offload costs to the extent possible without too much political fallout.

Ultimately, retirement at an early age will become more difficult in a variety of ways. In our recent past, Canada's population was young, the workforce was large, and pensions were relatively cheap thanks to high interest rates and lower life expectancy. We enjoyed a situation in which society could afford to have us retire early and, in fact, wanted us to do so as a means of making room for younger people in the workforce. So it was relatively easy to retire early, whether we realized it or not. Now the population is considerably older, the workforce is dwindling, and pensions are expensive. We are moving toward a situation in which society cannot afford to have us retire early, and will make it increasingly difficult to do so.

This all sounds rather dire, but there are two mitigating factors. First, it won't happen overnight. Not much will change over the next 10 years, apart from the fact that we need to start getting accustomed to lower returns on investments. When adverse changes do start to take hold, they will pose a serious problem only if we haven't prepared ourselves. The other factor is that we can make most of our retirement planning challenges go away by simply retiring later. This does not have to be as onerous as it sounds. No one should expect people to continue working long days week in and week out well into their sixties. People do want to continue working for the most part, but on their own terms, which increasingly will mean phased retirement with shorter hours, possibly fewer working days per week, and more flexibility in the hours of work.

Retiring Later

Based on surveys, most Canadians expect to retire by age 62, which is close to the current average retirement age. If we insist on continuing to retire around this age, taxes will rise, government programs will be cut, and more of us will have inadequate pensions. Yet this almost certainly will not happen. Just as various external forces nudged us into retiring earlier in the 1980s and 1990s, new forces will encourage us to retire later.

If we were to retire three years later than we now do, any concerns about having adequate retirement income would practically vanish. It would also alleviate any shortages in the workforce due to the aging of the population.

Some of us will view later retirement as a hardship, but we've been there before. In the mid-1960s, the average retirement age was about 65 and a 65-year-old Canadian male could expect to live only another 14 years or so. A 65-year-old today can expect to live another 19 years, so even if we do retire a little later, we will still have at least five more years to enjoy retirement than we used to.

Of course, not everyone will want to work until 65. Nor will everyone even have the opportunity to do so, since we will be battling with ageism in the workforce for some time to come. Earlier retirement will still be feasible but it will take more preparation than it used to do. This book should help you determine what you have to do to make it happen.

The authors of this book helped to build Morneau Shepell, the largest human resources consulting firm and the largest administrator of defined benefit pension programs in Canada. The firm is also the largest provider of employee assistance programs in Canada, helping employees and their families to deal with many of life's biggest challenges, personal, financial, and professional.

Working with employers who sponsor pension plans, Morneau Shepell's actuaries, retirement planners, administrators, and investment consultants help employees reach their retirement goals. Our experience is that misinformation is one of the biggest obstacles that people face in their retirement planning, something this book hopes to rectify.