

# An Analysis of the Economic Circumstances of Canadian Seniors



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by Richard Shillington of Tristat Resources\* | February 2016

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## EXECUTIVE SUMMARY

The issues of adequate retirement income security and seniors' poverty figured prominently in the 2015 Canadian federal election—as well they should have. Ensuring the economic well-being of Canada's growing population of seniors is an important and complex public policy challenge that the new federal government must grapple with.

Few disagree with the goal of providing all citizens with the means for a dignified and economically secure retirement. But there is profound disagreement about how this goal ought to be achieved and the role of different public programs in achieving it. This report provides new insights from statistical analyses of patterns in poverty, income, and savings among Canadian seniors. While there has been progress in reducing poverty among seniors over several decades, a less rosy picture arises in recent years and in projections of the future.

Poverty rates have been rising and recently plateaued for seniors, and savings data show that many Canadians, particularly those without an employer pension plan, have wholly inadequate retirement savings. Poverty trends over the recent past depend critically on which poverty measure one uses. Using the low-income measure (LIM), we see that senior poverty has increased from a low of 3.9 per cent in 1995 to 11.1 per cent, or one in nine, in 2013. The poverty rates for single seniors,<sup>1</sup> particularly women (at nearly 30 per cent), are very high and need to be addressed.

### Key findings:

- The Old Age Security (OAS) and Guaranteed Income Supplement (GIS) guarantee levels are falling behind: For single seniors, they have fallen from 76 per cent of median incomes in 1984 to about 60 per cent now. For senior couples, the OAS/GIS maximum benefits have declined from 53 per cent to 40 per cent of median incomes.
- Trends in income sources for seniors suggest that poverty rates will increase rather than decline into the future because OAS and GIS benefits are indexed to the Consumer Price Index (CPI), while average earnings rise faster than the CPI over extended periods.
- The spread between the OAS/GIS guarantee levels and the LIM for 2015—the spread that seniors need to fill using the Canada Pension Plan/Quebec Pension Plan (CPP/QPP), private pensions and private savings—is about \$5,600 for single seniors and \$4,700 for couples.

<sup>1</sup> Throughout this paper when we refer to single seniors we are not referring to their marital status, but the fact that they live alone.

- The proportion of the population receiving the GIS is higher for single seniors than couples, and higher for single women (between 44 per cent and 48 per cent) than for single men (between 31 per cent and 37 per cent).
- Roughly half (47 per cent) of those aged 55–64 have no accrued employer pension benefits. The vast majority of these Canadians retiring without an employer pension plan have totally inadequate retirement savings. For example, roughly half have savings that represent less than one year’s worth of the resources they need to supplement OAS/GIS and CPP/QPP. Fewer than 20 per cent have enough savings to support the supplemented resources required for at least five years.
- The overall median value of retirement assets of those aged 55–64 with no accrued employer pension benefits is just over \$3,000. For those with annual incomes in the range of \$25,000–\$50,000, the median value is near just \$250. For those with incomes in the \$50,000–\$100,000 range, the median value is only \$21,000.
- Only a small minority (roughly 15–20 per cent) of middle-income Canadians retiring without an employer pension plan have saved anywhere near enough for retirement. The vast majority of these families with annual incomes of \$50,000 and more will be hard pressed to save enough in their remaining period to retirement (less than 10 years) to avoid a significant fall in income.
- The seniors’ poverty gap is \$2.5 billion in aggregate annually, due to the 719,000 poor seniors (469,000 singles and 250,000 living in an economic family). The average gap per year is \$2,400 for single seniors and \$5,500 for seniors in a family. A 10 per cent benefit increase in the GIS to address this gap would cost \$1,628 million, and would reduce the number of poor seniors by about 149,000.
- In the recent election, the Liberal Party promised to increase the GIS by 10 per cent for single seniors. A simulation using Statistics Canada’s Social Policy Simulation Database and Model (SPSD/M) suggests that this would cost \$700 million and remove about 85,000 single seniors from the poverty roles, with a reduction in the singles poverty rate of 5.7 percentage points. While this is a reasonable start, clearly more can be done.

These findings raise serious questions about the policy needs for future pensionless cohorts, such as the adequacy of benefits from Old Age Security, the Guaranteed Income Supplement, and the Quebec and Canada pension plans. They also provide an invaluable baseline of evidence that the new federal government must consider as it moves forward to craft policy to address the economic security of Canada’s growing population of seniors.

While this report does not explore different programmatic remedies in detail, it provides support for the need to increase pension income (including from the CPP/QPP) to reduce seniors' poverty over the long term, and to consider other options to address the savings gap for Canadians without workplace pensions. In the shorter term, it shows that changes to the GIS, particularly those targeted at individuals, could make a serious dent in seniors' poverty more quickly.

## 1.0 BACKGROUND: STATUS AND TRENDS IN POVERTY FOR SENIORS

Overall, Canadian seniors do well compared to seniors in other developed countries. The Organisation for Economic Co-operation and Development (OECD) recently reported that, in 2010, 7.2 per cent of Canadians aged 65 and over lived in poverty.<sup>2</sup> While this is still below the OECD average of 12.8 per cent, the OECD notes that the rate has increased by two percentage points since 2007, and that single elderly women in Canada were especially vulnerable to poverty.

Statistics Canada produces poverty statistics using the OECD measure, which is called the low-income measure (LIM) after tax. This measure tells us what proportion of persons have after-tax incomes that are less than half of the median or mid-point after-tax income of comparable families.<sup>3</sup>

Poverty rates were very high in the late 1970s. But after a steady decline, by this measure, low income among Canadian seniors has been steadily rising from a low of 3.9 per cent in 1995 to 11.1 per cent, or one in nine, in 2013.<sup>4</sup> This trend is shown in Chart 1. Over the same period, the rate has risen sharply from nine per cent to 28 per cent—almost one in three persons—for single women seniors, and from six per cent to 24 per cent for single male seniors.<sup>5</sup>

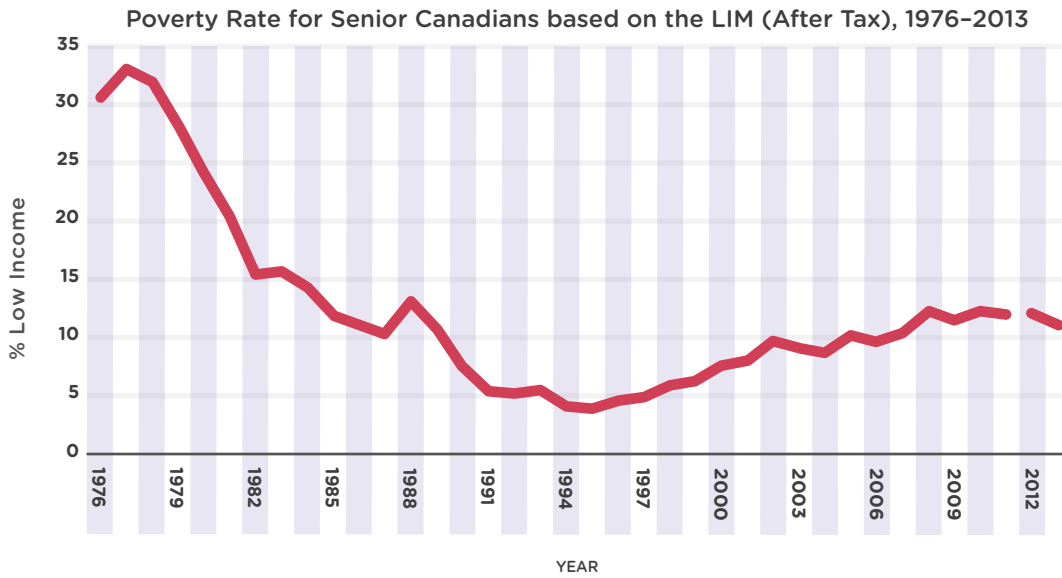
<sup>2</sup> "Pensions at a Glance," OECD and G20 Indicators. OECD: <http://www.oecd.org/canada/OECD-PensionsAtAGlance-2013-Highlights-Canada.pdf>

<sup>3</sup> The LIM income threshold is 50 per cent of the median of Canadian families' incomes that have been adjusted for family size. The thresholds are similarly adjusted for family size.

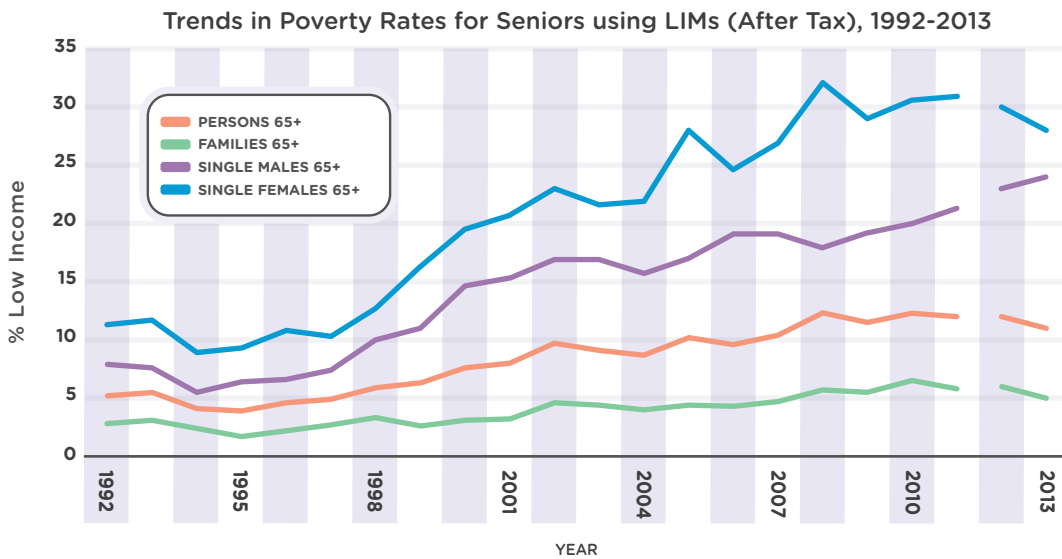
<sup>4</sup> See: Statistics Canada CANSIM Table 202-0802. The values for 2012 and 2013 are from #CANSIM 206-0041 (Statistics Canada cautions against comparing data from the Canadian Income Survey (CIS) with earlier data).

<sup>5</sup> Ibid.

**Chart 1**



**Chart 2:**



Source: Statistics Canada CANSIM Table 202-0802. The 1992-2011 values are from the SLID survey. The values for 2012 and 2013 are from the Canadian Income Survey (CIS) CANSIM Table 206-0041 (Statistics Canada cautions against comparing with earlier data)

Chart 2 is based on the same Statistics Canada data referenced earlier. It shows the disparity in senior poverty rate values depending on family type and gender. The poverty rate for single seniors (seniors living alone who might be divorced, widowed, or never-married) is much higher than it is for senior couples. For singles, the poverty rate for women (28 per cent in 2013) is higher than for men

(less than 24 per cent). Both are unacceptably high. One should keep in mind that senior couples are usually younger than single seniors, and that they are more likely to still be employed.

### **1.1 The Low Income Cut Off (LICO):**

One might ask why the LICO measure is not being used here, particularly as it shows a declining poverty rate for seniors even after 1995. Statistics Canada created the LICO in the late 1960s. It cautions against calling it a poverty measure, instead labelling it as a count of families in “straits circumstances.” The LICO was set at an income where families spent 20 per cent more of their income on necessities than was typical.<sup>6</sup> Since the typical share of income spent on necessities changes over time, LICOs were intended to be re-based—that is, recalculated—periodically so that they would reflect current expenditure patterns. The re-basings, done every few years, reflected real growth in incomes and changes in contemporary spending patterns. Between re-basings, the LICO was indexed by the Consumer Price Index to adjust for inflation.

Statistics Canada has not re-based the LICO since 1992, some 24 years ago. The LICO can no longer be treated as reflecting contemporary spending patterns. This explains why poverty rates continue to decline using the LICO, while poverty rates increase with the LIM, which uses contemporary measures of income adequacy based on median family incomes in the same year.

<sup>6</sup> The detailed methodology and variations for family size and urban setting are available on the Statistics Canada website: <http://www.statcan.gc.ca/pub/75f0002m/2012002/lico-sfr-eng.htm>



Income from employer pension plans also increased, reflecting the high employer pension plan coverage of the labour force in the decades before 1995. Employer pension plan coverage of the paid labour force has been falling for some time (from about 46 per cent of paid employees in 1977 to about 38 per cent in 2011<sup>7</sup>)—due largely to a decline in private rather than public sector coverage—and will eventually be reflected in average lower pension income at retirement.

One cannot expect to see the same increases in CPP/QPP benefits in the future, as the participation rates of women have not increased for almost a decade.<sup>8</sup> The trends that led to those improvements in participation rates for women (from 46 per cent in 1976 to 62 per cent in 2003) have stalled, remaining between 61 and 63 per cent from 2003 to 2014.<sup>9</sup>

<sup>7</sup> Marie Drolet and René Morissette. *New facts on pension coverage in Canada*. Statistics Canada, Catalogue no. 75-006-X, 2014.

<sup>8</sup> This observation is for women overall. The pattern varies by age group.

<sup>9</sup> See CANSIM Table 282-0002.



## 2.0 FACTORS AFFECTING SENIORS POVERTY

The income-tested Guaranteed Income Supplement (GIS) and Old Age Security (OAS) benefits together provide a minimum economic guarantee to seniors through a monthly payment. As of July 2015, the maximum annual OAS/GIS benefits for seniors aged 65 and over with no other source of income were \$15,970 for singles and \$25,746 for couples.<sup>10</sup>

The GIS is phased out, first at a rate of 75 per cent (a federal GIS top-up was introduced in the 2011 budget, adding a 25 per cent reduction rate), and then at the rate of 50 per cent of income (other than OAS) such as Canada Pension Plan and private pension benefits, income from paid employment, and income from investments. The GIS is reduced to zero above an annual income (thus calculated) of \$17,136 for single seniors and \$22,068 for senior couples.

Reliance on the GIS is greater for single seniors than it is for senior couples across all age ranges. The data in Table 1 demonstrate that the proportion of the population receiving the GIS is also higher for single women (between 44 and 48 per cent) than for single men (between 31 and 37 per cent) and for older singles than for younger singles. For example, 41 per cent of all seniors over age 85 receive the GIS, while only 30 per cent of seniors aged 66–69 receive it.

**Table 1:**

**Estimated Proportion of the Senior Population in Receipt of GIS, 2015**

|                      |   | AGE GROUP |       |       |     | All Seniors |
|----------------------|---|-----------|-------|-------|-----|-------------|
|                      |   | 66-69     | 70-74 | 75-84 | 85+ |             |
| SENIOR - COUPLE      | % | 25        | 28    | 31    | 22  | 28          |
| SENIOR - PURE SINGLE |   |           |       |       |     |             |
| MALE                 | % | 34        | 32    | 37    | 31  | 34          |
| FEMALE               | % | 44        | 44    | 48    | 48  | 47          |
| COMBINED             | % | 40        | 40    | 45    | 43  | 43          |
| ALL SENIORS          | % | 30        | 33    | 39    | 41  | 37          |

Estimates based on SPSPD (see footnote 11)

<sup>10</sup> Some people aged 60–64 will be eligible for the Spouses Allowance or the Allowance for the Survivor. As well, most provinces have their own top-ups to the GIS.

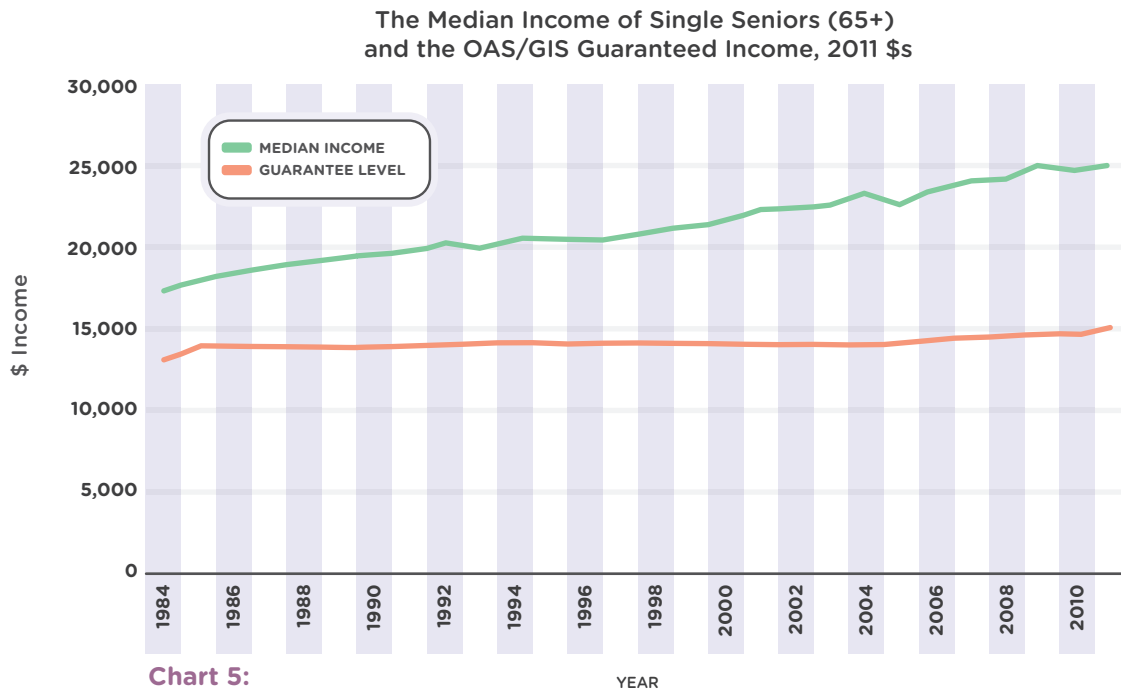
## 2.1 OAS / GIS Guarantee Levels

The income of seniors could be compared to the median Canadian income (as is done with LIMs), but it is also valuable to compare seniors in need to other seniors. One might have thought that some improvement in the poverty rates of seniors would be due to the GIS, which is targeted to lower-income seniors. Charts 4 and 5 show the OAS/GIS guarantee levels as compared to the median income of senior couples and seniors living alone. These data have been adjusted for inflation, and, as the title indicates, are presented in the purchasing power of 2011 dollars.

As Charts 4 and 5 illustrate, from 1984 to 2011, the median income of seniors (singles and couples) has increased by about 45 per cent, after adjusting for inflation. In contrast, the OAS/GIS guarantee levels have increased by about seven per cent for senior couples and 15 per cent for single seniors.

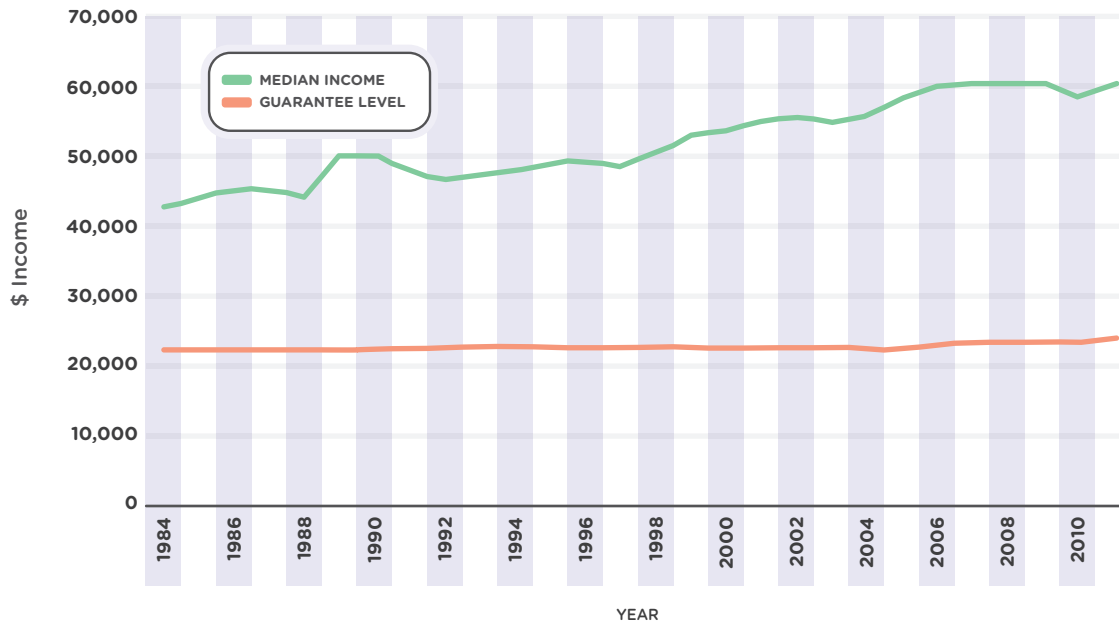
Thus, the OAS/GIS guarantee level, which was at 76 per cent of median incomes for single seniors in 1984, has declined to about 60 per cent recently. The OAS/GIS guarantee level for senior couples has fallen from 53 per cent of median couple income to 40 per cent over this period.

**Chart 4:**



**Chart 5:**

The Median Income of Senior Couples (65+) and the OAS/GIS Guaranteed Income, 2011 \$s



To further demonstrate the inadequacy of the current GIS, Table 2 is based on an SPSPD/M<sup>11</sup> simulation for 2015. It indicates that the spread between the OAS/GIS guarantee levels and the LIM for 2015 is about \$5,600 for single seniors and \$4,700 for senior couples.

Table 2:

Comparing OAS/GIS Guarantee Levels to the LIM-AT

|        | BASE CASE - 2015 |        |                          |                         |                  |                               |
|--------|------------------|--------|--------------------------|-------------------------|------------------|-------------------------------|
|        | OAS              | GIS    | OAS/GIS INCOME GUARANTEE | LIM (POVERTY THRESHOLD) | GUARANTEE SPREAD | INCREMENT TO GIS (PER PERSON) |
| SINGLE | \$ 6,778         | 9,191  | 15,970                   | 21,544                  | 5,574            | 5,574                         |
| COUPLE | \$ 13,557        | 12,189 | 25,746                   | 30,467                  | 4,721            | 2,361                         |

ANALYSIS CONDUCTED USING SPSPD/M

One should bear in mind that these gaps are the spread between the OAS/GIS guarantees and the LIM. The vast majority of seniors will have other sources of income beyond the OAS and GIS—most commonly the CPP and QPP, but also employer pensions, RRSP/RRIF withdrawals, and earnings. Nevertheless, to meaningfully address seniors’ poverty, one clear option is to boost the GIS.

An analysis later in this report will look at the cost of closing this gap using the GIS.

<sup>11</sup> This analysis is based on Statistics Canada’s Social Policy Simulation Database and Model (SPSPD/M). The assumptions and calculations underlying the simulation results were prepared by Richard Shillington, and the responsibility for the use and interpretation of these data is entirely that of the authors.

## 2.2 PENSION COVERAGE

The difference in incomes<sup>12</sup> at retirement between those seniors with and without a pension income<sup>13</sup> is stark and cause for serious study by the new government. The difference is not all due simply to the presence or absence of an employer pension plan. Those who have had an employer pension plan are more likely to have had better paying jobs, and jobs with health and other benefits. As well, it is possible that those who seek out jobs with a pension are more likely to be those motivated to save for retirement. But certainly, participating in a pension offers advantages that make it easier to have a higher income at retirement.<sup>14</sup>

**Table 3:**

**Average and Median Income for Senior Families and Single Seniors (65+), 2008–2011, Canada, by the Presence of Pension Income\*\***

| INCOME 2011 \$s                      | CENSUS FAMILY |              | SINGLE MALE |              | SINGLE FEMALE |              |
|--------------------------------------|---------------|--------------|-------------|--------------|---------------|--------------|
|                                      | No Pension    | With Pension | No Pension  | With Pension | No Pension    | With Pension |
| AVERAGE INCOMES \$                   | 52,000        | 68,000       | 26,000      | 46,000       | 19,800        | 39,000       |
| MEDIAN INCOMES \$                    | 31,400        | 55,400       | 19,000      | 37,300       | 18,000        | 30,400       |
| AVERAGE EARNINGS \$                  | 19,100        | 7,200        | 4,400       | 2,800        | 1,340         | 1,490        |
| AVERAGE INCOME EXCLUDING EARNINGS \$ | 32,900        | 60,800       | 21,600      | 43,200       | 18,460        | 37,510       |

\* Values are averaged over the years 2008–2011

\*\* Pension income means they have at least \$1,000 of income from an employer pension plan/annuity

Source: Calculations by Richard Shillington (richard@shillington.ca) using the Survey of Labour Income Dynamics, 2008–2011

For couples, those without pension income have significantly lower total incomes (\$52,000) compared to those with pension income (\$68,000). This is despite their higher income from earnings<sup>15</sup> (\$19,100 for those without pension income, compared to \$7,200 for those with pension income).

For individuals, the story is very different: They are more likely than couples to be over the age of 70, and much less likely to be employed. For single women, the median incomes are \$18,000 for those without a pension and \$30,400 for those with a pension. For men, the medians are \$19,000 and \$37,300, respectively. These gaps are significant.

**12** Because our goal is to assess the resources of seniors, we are using “census families”; the data ignore the income of other relatives who may be living with them (accept for any minor children). In other sections, when assessing the poverty of seniors, we use the income of the “economic family,” which includes the income of other relatives.

**13** Pension income here excludes income from OAS and CPP/QPP. This analysis uses pension income to identify those with an employer pension. The data cannot distinguish between income from an employer pension plan and income from an annuity, so some of those treated as “With Pension” will have annuity income only. The Survey of Financial Security (SFS) can be used to produce a similar table identifying pensioners more accurately using private pension equity, albeit with a substantially reduced sample and with an economic family perspective. The income values are somewhat different, but not sufficiently so to change the policy implications.

**14** These include lower administrative costs, professional investment management, and the pooling of longevity risks.

**15** Earnings include wages from paid employment or self-employment.

Generally, the median incomes for those without pension income is just over half that for those with pension income.

There are obvious societal concerns about having so many seniors at retirement age with inadequate incomes. It is also prudent to consider what future pensionless cohorts will mean for the adequacy of current programs like OAS and GIS.

### 3.0 FUTURE TRENDS IN RETIREMENT

#### 3.1 Understanding the landscape:

Two criteria can be used to assess the adequacy of income at retirement. One is a poverty criterion—that is, the income adequate for a standard of living not too distant from contemporary norms. Poverty levels measured using the LIM will likely increase as the OAS/GIS guarantee levels fail to keep pace with median incomes.

A second criterion is the replacement rate concept: Does the retirement income allow the senior individual or couple to maintain a standard of living consistent with the lifestyle they enjoyed pre-retirement?

Since OAS and GIS are indexed to prices, they will, without changes in legislation, continue to fall behind rising median incomes of working non-seniors. The CPP and QPP are calculated at retirement to track average wages (thereafter, benefits are indexed to the CPI), but are a small share of total income. Pension income will eventually decline as the fall in coverage comes to be reflected in the retirement experience of new retirees.

Against this backdrop, we observe again that pension coverage for the employed population is declining: About 46 per cent of paid employees had pension plans in 1977, and only about 38 per cent had them in 2011.<sup>16</sup> The adequacy and reliability of pension plan benefits is also declining as employers (particularly in the private sector) shift from defined benefit to defined contribution pension plans.

<sup>16</sup> Marie Drolet and René Morissette; *New facts on pension coverage in Canada*; Statistics Canada; Catalogue no. 75-006-X; 2014.

The increased rates of employment for seniors, with and without an employer pension, may forestall some increases in seniors' poverty, although seniors' employment rates have been rising post-1995—at the same time as poverty rates have been increasing.

There has been much debate about how many future seniors will experience a major fall in their standard of living at retirement.<sup>17</sup> The biggest concern relates to future retirees who do not have an employer pension and who earned near or above average incomes. Michael Wolfson uses the LifePaths computer model to suggest that a significant proportion of those without an employer pension plan will not have saved adequately for retirement and will suffer a major loss of income. The data presented in the following section does not involve modelling, and is simply a presentation of data on the savings of current seniors and near seniors.

### 3.2 Retirement savings without employer pension

The data in Table 4 comes from the Survey of Financial Security for 2012 and gauges the retirement assets of families aged 55–64 and nearing retirement. The following tables are for families without employer pension benefits (less than \$10,000 in benefits based on current or past employment). Of those aged 55–64, about half have essentially no accrued employer pension benefits. The sample size for families aged 55–64 and without employer benefits is rather limited, so broad income groups are used.

Overall, we find that about half of these families without an employer pension have virtually no savings; indeed, 78 per cent of them have less than \$100,000 in retirement savings. Lower-income families eligible for OAS/GIS along with CPP/QPP may still have little or no drop in income, however inadequate that income might be.

Table 4 shows the amount of retirement savings (RRSPs plus TFSAs) for families with the oldest member aged 55–64 and with virtually no assets in an employer pension plan (less than \$10,000). These values highlight how little the vast majority of those nearing retirement without an employer pension plan have saved for retirement.

<sup>17</sup> See: Wolfson, M. (2011). *Projecting the Adequacy of Canadians' Retirement Income: Current Prospects and Possible Reform Options*. IRPP Study, No. 17. Montreal: Institute for Research on Public Policy; Hamilton, M. (2015). *Do Canadians Save Too Little?* Commentary no. 428. (Toronto: C.D. Howe Institute); Mintz, J. (2009), "Summary Report on Retirement Income Adequacy Research". *Prepared for the Research Working Group on Retirement Income Adequacy of Federal-Provincial-Territorial Ministers of Finance*. Ottawa: Department of Finance; and Tyler Meredith, 2015; *Lower risk, Higher Reward: Renewing Canada's Retirement Income System*; Mowat Centre; Toronto; August 2015.

**Table 4:**

**Retirement Savings of Canadian Families 55-64 without an Employer Pension Plan\*\***

| INCOME 2011 \$s              | INCOME GROUP FOR THE ECONOMIC FAMILY |                |                   |                    |           |
|------------------------------|--------------------------------------|----------------|-------------------|--------------------|-----------|
|                              | Total                                | Under \$25,000 | \$25,000-\$50,000 | \$50,000-\$100,000 | \$100,000 |
| AVERAGE INCOME \$            | 64,000                               | 12,600         | 38,000            | 71,000             | 199,000   |
| AVERAGE RETIREMENT ASSETS \$ | 85,000                               | 17,600         | 57,000*           | 77,000             | 280,000   |
| MEDIAN RETIREMENT ASSETS \$  | 3,000                                | 0              | 250               | 21,000             | 160,000   |

\* Large Error +/-25%

\*\* Employer Pension Plan assets are less than \$10,000

Retirement Assets are RRSP's, TFSAs and Employer Pension Equity.

Families where the oldest person is 55-64

Source: Special tabulations by Tristat Resources (richard@shillington.ca) using the Survey of Financial Security.

The average and median retirement assets are both shown to assist in their interpretation because averages that include a few very large values can be misleading and inflated, and certainly do not represent “typical” values. The overall average amount of retirement assets for this group is \$85,000. However, the median value, which is not inflated by a relatively few high values, is just over \$3,000. This is clearly inadequate.

For families with income in the range \$25,000-\$50,000, average retirement assets are near \$57,000, and the estimated median value is near \$250. Even bearing in mind that these are rough estimates due to a limited sample size, it is clear that most in this population have saved little or nothing.<sup>18</sup> For those with incomes in the \$50,000-\$100,000 range, the median value of retirement assets is \$21,000, which is wholly inadequate to avoid a drastic drop in income at retirement.

These data demonstrate that the vast majority of these families with annual incomes of \$50,000 and more will be hard pressed to save enough in their remaining period to retirement (less than 10 years) to avoid a significant fall in income. It appears that at least 25 per cent have very limited retirement assets despite incomes of \$50,000-\$200,000.

The analysis presented in Table 4 is somewhat simplistic because it ignores the impact of public benefits (OAS/GIS and CPP/QPP) on the amount that future seniors need to save. It is also accepted that many seniors need less income at retirement in order to maintain the standard of living that they had pre-retirement. The actual replacement rate required—the ratio of post-

<sup>18</sup> One should note that some in this group do not need to save to meet a replacement rate objective, because OAS/GIS and CPP/QPP will replace a significant portion of their income.

retirement to pre-retirement income—varies by how it is measured (pre- or post-tax). Seventy per cent is commonly used, although it varies by individual circumstances and tastes; higher values are more appropriate for the poor, and lower values are more appropriate for the very wealthy.

### 3.3 Retirement savings compared to income

The analysis presented in Table 5 also shows widespread under-saving. The calculations use a 70 per cent pre-tax replacement rate, and the findings would not change dramatically if other reasonable replacement rates were used. Table 5 has adjusted the income needed at retirement from the public sources available, and while this is crude, the gaps in savings are so stark as to make obvious the conclusion of inadequate savings.

The analysis assumes that single seniors will get \$15,000 from OAS/GIS and CPP/QPP, and that senior couples will get \$25,000. Using this data, we can calculate the spread between future retirees' public income (\$15,000 for singles or \$25,000 for couples) and 70 per cent of their income in the year of the survey. Their retirement assets are then expressed as multiples of the income they need from private sources after retirement. Some do not need to save for retirement to get 70 per cent replacement because their income is quite low (below \$21,429 for singles and \$35,714 for couples).<sup>19</sup> These individuals and couples are excluded from Table 5.

To illustrate, a family with an income of \$100,000 (pre-tax) is assumed to need \$70,000 (70 per cent of \$100,000), and will get roughly \$25,000 in public support. Thus, they will need to make up \$45,000 per year from their private savings. The values shown in Table 5 are the family's retirement assets divided by the annual requirements (in this case, \$45,000). That figure tells us how many years they can withdraw \$45,000 ignoring any return on investment.

The last column in Table 5 indicates the distribution of these near-seniors by their savings. The first row indicates that 32 per cent of these families have less than \$1,000 in retirement savings. About 23 per cent have more than \$1,000 but less than one year's savings (that is, less than they need to supplement public sources to reach 70 per cent replacement for one year). Fifteen per cent have

<sup>19</sup> Because \$15,000 is 70% of \$21,429 and \$25,000 is 70% of \$35,714.



enough for 1–2.5 years, 13 per cent have enough for 2.5–5 years, and only 18 per cent have more than 5 years’ worth of savings.

These results vary by income group, but in each income category, few have more than five years’ worth of the savings needed to supplement their public income. Even those families with an income of more than \$100,000 are unlikely to have more than five years’ worth of the required supplemental income in their retirement savings; only 21 per cent meet this criterion.

That is not to say that having enough savings for five years would be adequate. This criterion was driven more by the limited sample size in the survey.<sup>20</sup> One would expect adequate savings to be more like 20 years’ worth given a life expectancy, at age 65, of about 20 years.

In summary, regardless of income, few of these families have enough savings to supplement their income for even one year. Only 15–20 per cent have enough for five or more years.

**Table 5**

**The Retirement Assets Relative to Target Income\*\* of Canadian Households Aged 55-64 who have No Pension Assets\*\*\*, 2012**

| RETIREMENT SAVINGS RELATIVE TO TARGET INCOME* | FAMILY INCOME  |                    |            |       |
|---|----------------|--------------------|------------|-------|
|   | Under \$50,000 | \$50,000-\$100,000 | \$100,000+ | Total |
| LT \$1,000 %                                  | 54             | 27                 | 15         | 32    |
| LT 100%**** %                                 | 17             | 27                 | 22         | 23    |
| 100%-250% %                                   | 7              | 17                 | 20         | 15    |
| 250%-500% %                                   | 6              | 13                 | 22         | 13    |
| > 500% %                                      | 17             | 16                 | 21         | 18    |
| <b>TOTAL</b> %                                | 101            | 100                | 100        | 100   |

\* Note: the first category is for those with less than \$1,000 of retirement assets;

\*\* Target income is the difference between 70% of current income and the public guaranteed income.

Public guaranteed income is \$15,00 for individuals and \$25,000 for couples.

\*\*\* Less than \$10,000 of pension assets (going concern). The table only includes those who need to save privately to achieve 70% replacement.

\*\*\*\*100% = enough savings for one year

Source: Special tabulations by Tristat Resources (richard@shillington.ca) using the Survey of Financial security.

Table 5’s data are presented graphically in Chart 6. For simplicity, the retirement assets (RRSPs and TFSAs) are presented in three groups: those with less than one year’s worth of savings; those with one to five years’ worth; and those with enough savings for more than five years.

**20** The sample size was insufficient to subdivide the category of five years plus.

Again, most have less than one year's worth of income saved. The exception is the income group \$100,000+, though 37 per cent still have less than one year's worth. In each income group, only 15-21 per cent have more than five years' worth of savings.

**Chart 6**

**The Retirement Assets Relative to Target Income\*\* of Canadian Households Aged 55-64 who have No Pension Assets\*\*\*, 2012**



\*\* Target income is the difference between 70% of current income and the public guaranteed income. Public guaranteed income is \$15,000 for individuals and \$25,000 for couples.  
 \*\*\* Less than \$10,000 of pension assets. The table only includes those who need to save privately to achieve 70% replacement.  
 Source: Special tabulations by Tristat Resources (richard@shillington.ca) using the Survey of Financial security.

These data are cause for real concern for many families with average or above-average incomes. Most of these families are within 10 years of retirement. The level of savings is, on average, inadequate to avoid a major drop in income below the 70 per cent replacement rate at retirement. It would appear that their savings are typically below one year's income.

These data have significant implications for the policy debate: Only a small minority (roughly 15-20 per cent) of middle-income Canadians retiring without an employer pension plan have saved anywhere near enough for retirement. Several policy analysts argue for an expanded CPP—the only defined benefit,

indexed pension available to all Canadians at a modest expense.<sup>21</sup> There are many ways to enhance the CPP. Although this report does not compare them, it does identify that the need is concentrated in those with above-average incomes without an employer pension plan, providing compelling evidence that most of this population does not save enough.<sup>22</sup>

As always, averages can obscure impacts for important subpopulations. The results shown in this report are for families and single persons. On average, single people have less retirement savings. They also have less savings relative to their income requirements than families. Single men have more savings than single women, but they have less savings relative to their income requirements.

There are those who suggest that the number of seniors (again, with modest income, and without an employer pension plan) who will face a significant drop in income is not a problem,<sup>23</sup> a view that has been thoroughly debunked elsewhere.<sup>24</sup> Many of those who argue that there is no looming pension crisis have included home equity as a liquid asset. This analysis has not treated home equity as a retirement asset because the replacement rate analysis has as its objective an income that allows one to enjoy a lifestyle comparable to that which existed pre-retirement. We do not include home equity here because we accept that the pre-retirement lifestyle for many middle- and moderate-income Canadians includes continued home ownership.

Wolfson has explored the option of including home equity in the analysis as some researchers argue should be included. This inclusion does not alter his forecast of a significant drop in standard of living for a substantial number of Canadian families with moderate income but no employer pension plan. The calculations were repeated here treating family net worth as the funds available for retirement.<sup>25</sup> Similar to Wolfson, the policy conclusions do not change.

Using net worth, the proportion of seniors (without an employer pension) who have at least 5 years of replacement income saved increases overall from 18%

<sup>21</sup> The Canadian Institute of Actuaries has recently joined those advocating for an expanded CPP.

<sup>22</sup> Wolfson, M. 2015. *What, Me Worry?* Canadian Centre for Policy Alternatives; Kesselman, J.R. 2010. "Expanding Canada Pension Plan Retirement Benefits: Assessing Big CPP Proposals," in SPP Research Papers 3:6, University of Calgary, School of Public Policy.

<sup>23</sup> McKinsey & Company. 2015. *Building on Canada's Strong Retirement Readiness*; Hamilton, M. 2015. *Do Canadians Save Too Little?* Commentary no. 428. Toronto: C.D. Howe Institute.

<sup>24</sup> Wolfson, M. 2015. *What, Me Worry?* Canadian Centre for Policy Alternatives.

<sup>25</sup> Net worth is used because it includes home equity but also is net of any debts. This overstates somewhat the resources available as it does not account for needed funds for rent which would normally exceed somewhat the cost of maintaining a comparable home that has no mortgage.

to 28%. For those with an income over \$100,000 the proportion with just five plus years worth of savings increases from 21% to 49%. That’s still less than half. In other words, including home equity does not change the conclusion that the overwhelming majority of families without an employer pension have inadequate savings.

#### 4.0 ONE OPTION: REDUCING SENIORS POVERTY WITH GIS

The analysis thus far has presented sound evidence that current policies, programs, and approaches to ensuring the economic security of Canada’s seniors are falling short. In addition to worrisome levels of poverty, the data show totally inadequate retirement savings of Canadians without workplace pensions. This highlights both the need for expanding the CPP/QPP and the shortcomings of voluntary savings vehicles like TFSAs, RRSPs, group RPPs, and the more recent Pooled Registered Pension Plans.

This paper does not discuss directly how CPP expansion would address seniors’ poverty in the long run. The next section of the analysis, however, looks at how the poverty rate could be reduced in the short term through changes to the GIS.

Table 6 presents estimates of the poverty gap using Statistics Canada’s SPSD/M microsimulation model. The poverty gap is the total amount of money that would be needed to raise the incomes of all poor seniors to the LIM poverty line—ignoring any behavioural impacts of the transfer programs used to achieve that goal.<sup>26</sup> That gap can be estimated using Statistics Canada’s data on the number of persons in low-income households and the average gap between their incomes and the poverty line. The results are shown in the first column of the table.

**Table 6:**

**Poverty Gap in 2015 for Seniors, Canada**

|                                | FAMILY INCOME            |                        |                          |                       |
|--------------------------------|--------------------------|------------------------|--------------------------|-----------------------|
|                                | Poverty Gap (\$ billion) | Number Poor (thousand) | Average Poverty Gap (\$) | Person 65+ (thousand) |
| SENIOR - LIVING ALONE          | 1.1                      | 469                    | 2,400                    | 1,498                 |
| SENIOR - IN AN ECONOMIC FAMILY | 1.4                      | 250                    | 5,500                    | 3,948                 |
| ALL SENIORS                    | 2.5                      | 719                    | 3,500                    | 5,446                 |

Source: Simulation using SPSD (see footnote 11)

<sup>26</sup> Kesselman, J.R., 2014; “Guaranteeing Incomes for the Poor: A Dubious Anti-Poverty Strategy,” *Inroads: The Canadian Journal of Opinion*, Issue 34 (Winter/Spring), pp. 33-43.

The poverty gap is \$2.5 billion in aggregate, which is due to the 719,000 poor seniors:<sup>27</sup> 469,000 singles and 250,000 living in an economic family. The average gap is \$2,400 for single seniors and \$5,500 for seniors in a family.

#### 4.1 Reducing the poverty rate

There are policy challenges in reducing the poverty rate for seniors using the GIS. Any increase in the GIS would improve the standard of living of almost one-third of seniors, which is a good thing, but it may move only a few seniors from one side of the poverty line to the other. The change in the number of poor is a limited measure of the impact of increasing the GIS benefit rates. If this were your sole performance criterion, you would assist the near poor to move them above the line and do nothing for the very poor. Assisting all low-income seniors, on the other hand, reduces the poverty rate and also the poverty gap.

Table 7 presents the results of increasing the single and married GIS amounts by the same percentage. One should keep in mind that there is an incentive for seniors to appear as singles to governments even if they are living as a couple.<sup>28</sup> This is because the GIS for senior couples is less than twice the amount for singles. An increase in the GIS for singles only (with no increase for couples) would increase this so-called “tax on marriage” and associated incentives. This would encourage couples to hide their cohabitation from the authorities for financial reasons.

Table 7 summarizes the estimated impact of possible GIS benefit increases on program cost and the poverty rate of seniors. The maximum GIS benefit rate is assumed to increase by the same percentage for single seniors and senior couples. The first column of numbers shows the cost of the GIS in 2015 (\$9,092 million), the poverty rate in 2015 (13.2 per cent), and the number of poor in 2015 (about 719,000). The next four columns present the estimated impact of increasing the GIS benefit rate by 2.5 per cent, 5.0 per cent, 7.5 per cent, and 10.0 per cent, respectively.

<sup>27</sup> It should be borne in mind that seniors living in an “economic family” may be living with non-seniors, and their poverty may be entirely due to the inadequate income of the non-senior members of the family. As well, some seniors might individually be low-income but may be non-poor because of the income of other family members.

<sup>28</sup> While legislation treats those cohabiting the same regardless of their marital status, it is easier to deceive the government if you are not married.

**Table 7:**

**Impact of Increasing the GIS Benefit**

|  | Base Case<br>(SPSD/M) | INCREASE IN GIS – ANNUAL |           |           |            |         |
|--|-----------------------|--------------------------|-----------|-----------|------------|---------|
|  |                       | Plus 2.5%                | Plus 5.0% | Plus 7.5% | Plus 10.0% |         |
| ESTIMATED GIS COST                                 | \$ million            | 9,092                    | 9,487     | 9,907     | 10,316     | 10,720  |
| COST TO INCREASE GIS                               | \$ million            |                          | 394       | 815       | 1,244      | 1,628   |
| POVERTY RATE                                       | %                     | 13.2                     | 12.3      | 11.8      | 11.1       | 10.5    |
| NUMBER OF SENIORS POOR (using LIM-AT)              |                       | 719,000                  | 671,000   | 641,000   | 605,000    | 570,000 |
| REDUCTION IN NUMBER OF SENIORS POOR (using LIM-AT) |                       |                          | 48,000    | 78,000    | 114,000    | 149,000 |

There are about 1.7 million GIS recipients out of 5.5 million OAS recipients (about 31% of seniors). They benefit from the increased support.

Taking one example of the tabulated results, a 10.0 per cent benefit increase is estimated to increase the cost of the GIS by \$1,628 million to yield a poverty rate of 10.5 per cent, and to reduce the number of poor seniors by about 149,000.

The Liberal Party’s proposal in the recent election was to increase the GIS by 10 per cent for single seniors. The SPSPD/M simulation suggests that this would cost \$700 million and remove about 85,000 single seniors from poverty, with a reduction in the singles poverty rate of 5.7 percentage points. While a reasonable starting point, clearly much more can be done to reduce the poverty rate.

## 5.0 CONCLUSIONS

While the situation for many Canadian seniors is much improved compared to the late 1970s, there is no justification for complacency as trends of the last several years and projections into the future point to a deteriorating situation for their economic security.

Poverty rates for seniors have been trending up since 1995. Rates remain unacceptably high for single seniors—especially women—and the worsening trends in pension coverage point to further increases in poverty in the future. The GIS is the most effective federal mechanism in the short term for reducing the poverty rate and the impact of poverty on seniors, and it can be targeted at senior individuals who need it most.

The data on the retirement savings of Canadians currently nearing retirement age is unequivocal. A substantial proportion of middle-income Canadians without an employer pension plan will face a dramatic drop in living standards during their retirement years. While this report does not deal in detail with possible programmatic remedies, it demonstrates the urgent need to address this situation.

The panoply of public policies offering “voluntary” options for saving—such as RRSPs, TFSAs, group RPPs, and the more recent Pooled Registered Pension Plans—have demonstrated their inadequacy to address the shortcomings in declining workplace pensions and a Canada Pension Plan with limited benefits. These results suggest an important role for incentives to expand workplace pensions (particularly of the defined-benefit variety), and to enhance benefits of the Canada Pension Plan.