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Fairness for Canadian Seniors - A Reality Check on Pensions

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Executive Summary

The current national conversation about Canada's retirement income system has been a great example of Canadians talking to each other about *what really matters*. The conversation has unfortunately tended to focus on middle- and high-income Canadians, touching only superficially on the situations of those who live with less.

This paper presents an examination of Canada's retirement income system as it relates to those living on low incomes. It makes the case that, as it currently stands, the system does not have the capacity to improve the incomes of seniors who are currently poor, and significant changes are necessary. It poses several important questions to the federal Department of Finance, and makes recommendations for increasing fairness for this population, including:

1. Continue to increase uptake of the Guaranteed Income Supplement (GIS) among low income seniors. Community groups across the country, with support from federal, provincial and municipal governments, have done much to address this issue, however more than 100,000 eligible seniors do not currently receive the GIS.[1]

2. Increase GIS benefit levels. While Old Age Security (OAS) and GIS bring many low-income seniors above the after-tax Low income cut-off (LICO-AT), the maximum OAS/GIS payment of about $14,000 per year is still quite meagre.

3. Implement a strengthened GIS for single, unattached seniors. An overweighting of benefits to this population may help to bring unacceptably high rates of poverty more in line with those of seniors living in couples.

4. Ensure that any changes to Canada's retirement income system take account of the needs of low income Canadians – the seniors of today and those of the future.

5. Assess the potential effects of changes to the retirement income system with reference to disaggregated population groups including male and female

seniors living alone, visible minorities, immigrants and people with physical, mental health and intellectual disabilities.

These recommendations are specific, targeted, and affordable – at $8 billion per year, the GIS accounts for a small percentage of the federal budget. As it stands, the first tier of Canada's pension system is not adequately meeting its objective of addressing senior poverty and recognizing the contribution of seniors to Canada's prosperity.

Fairness for Canadian Seniors – A Reality Check on Pensions

In January 2009, the federal Department of Finance released a research paper[2] that began a pan-Canadian conversation on our country's retirement income system. Coming just after the beginning of the economic downturn, when many had seen their retirement nest eggs drop precipitously in value, the paper was timely and sparked a highly varied yet constructive discussion.

This conversation unfortunately tended to focus on middle- and high-income Canadians, to the exclusion of those who live on less. This focus stemmed, at least in part, from the fact that the adequacy of retirement incomes is often assessed with reference to the ability of pensions and other post-retirement savings vehicles to replace a certain percentage of pre-retirement income.

By this assessment, low-income Canadians seem to do well. A recent Department of Finance consultation document notes that "low income individuals are on track to replace over 80 percent of their pre-retirement income, largely due to the Old Age Security/Guaranteed Income Supplement programs and the Canada and Quebec Pension Plans." Further, "most low income seniors have adequate income security, with annual retirement incomes equal to or more than income earned during their working lives."[3]

Lost in this assessment is any information about the actual *amount* of money low income Canadians are living on, pre- and post-retirement. It is important to note that the average annual income of working Canadians in the lowest income quintile was only $15,375 in 2005.[4] For those on social assistance, incomes are likely to be even lower – somewhere between $3,687 and $9,448 annually for a single person in 2008, up to $23,267 for a family of four, depending on one's province of residence.[5]

We hope that this brief paper will add, and bring a slightly different perspective to, the national conversation on retirement income adequacy. It will examine Canada's retirement income system with a focus on seniors living in or near poverty. It poses several important questions to the federal Department of Finance, and makes recommendations for improving the system for this population.

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A. Low Income Among Seniors – Unfinished Business

There is much to be proud of in Canada's public pension system. The strength of the Canada/Quebec Pension Plans and of Old Age Security has placed Canada among the best nations in the OECD with respect to low income among seniors. Whereas 9.9% of working-age Canadians lived in low income (as measured by the after-tax Low income cut-off, or LICO-AT) in 2007, this was the case for only 4.8% of seniors – down from almost 13% just 10 years earlier.[6]

Many older Canadians on social assistance actually look forward to their 65th birthday, when they can finally get out from under provincial welfare bureaucracies characterized by suspicion, surveillance and stress,[7] and move to Old Age Security (OAS)/Guaranteed Income Supplement (GIS)/Canada Pension Plan (CPP) benefits. Reaching 65 means finally being able to be treated with some dignity by the state, to have a dependable and more adequate source of income, and to be able to afford a bit more healthy food, a bit more heat in the winter, perhaps finally to have the ability to invite family over to one's home for a holiday meal or birthday celebration.

Nevertheless, to simply say that only 4.8% of Canadian seniors, taken as a group, live in low income is to gloss over a more nuanced reality. For example:

- 13.9% of unattached, single seniors (201,000 individuals) live in low income
- 14.3% of unattached, single female seniors (123,000 individuals) live in low income[8]
- 6.3% of households assisted by food banks report that a pension is their primary source of income[9]

The facts about the incomes of single, unattached seniors are striking. Though rates of low income among this population are below those for single unattached individuals under age 65, they remain higher than the population average. Many commentators have made the case that poverty among seniors has been nearly eliminated. However, we have not succeeded in effectively addressing the problem of low income among what is perhaps the most vulnerable sub-population of seniors – those who live alone.

Even among seniors not considered to be living in low income, it is important to ask whether current measures of poverty adequately capture the true living standards, and the vulnerability, of seniors:

- The LICO-AT for a single person in 2007 was $11,745 in rural, and $13,441 in urban areas
- For families of two – the most likely situation for older couples – the annual LICO-AT was $14,295 in rural areas, and $16,360 in urban areas

A brief analysis of housing prices, and the cost of energy, transportation, food, clothing and other essentials leads us to the conclusion that an annual income of $13,441 is not very much to live on. Nor does it seem a very generous recognition of the lifetime contributions of seniors to their country – a primary goal of the OAS and GIS.

To expand on these issues, the next section will address two further questions:

1. How far below the LICO-AT are the actual incomes of low income seniors?
2. How many seniors are near-poor, i.e. living with incomes marginally above the LICO-AT?

B. Low Income Among Seniors – Looking Deeper

1. The Low Income Gap

As noted above, 4.8% of all Canadian seniors had incomes below the LICO-AT in 2007, with a significantly higher incidence of low income among single unattached individuals. It is instructive to understand *average* incomes among those living under the LICO-AT:

- The average low income gap – the amount by which incomes fell below the LICO-AT – among low-income senior families in 2007 was $6,900 in 2007; for an urban low income senior couple, this means living on an average of $9,460 per year[10]
- The average low income gap among low-income unattached seniors was $2,350 in 2007; i.e. the average income among this group was $11,091 per year

It is not enough to simply consider the number or percentage of seniors living in low income – to get a better picture of how low income seniors are really doing we must understand exactly how much they are living on. The reality is that they tend to live on significantly less than the LICO-AT.

2. The Poor and the Near-Poor

The practice of separating "low income" from the "not-low income" can be overly simplistic. It is a useful if imperfect analytical tool, wherein a single senior living on $11,745 per year (i.e. the LICO-AT threshold) in a rural area is considered to live in low income, whereas their neighbour living on $11,746 is not.

For a fuller understanding of incomes among Canadians of retirement age, it is useful to also look at those who are "near-poor," in this case those who live below 125% of the LICO-AT.[11] While critics could reasonably accuse us of attempting to move the bar on the poverty line, the below tables provide useful insights.

Table 1 shows the percentage of various types of senior households living below the LICO-AT. **Table 2** provides a slightly different picture, illustrating the percentage with incomes up to 125% of the LICO-AT. **Table 3** shows the total *number* of unattached senior men and women, as well as couples, with incomes up to 125% of the LICO-AT.[12]

Table 1 – Percentage of Senior Households, Incomes Below LICO-AT, 2007

Percent Distribution	Unattached Women 65 and Older	Unattached Men 65 and Older	Elderly Couples
Less than LICO	14.3%	13.0%	1.0%
More than LICO	85.7%	87.0%	99.0%
Total	100.0%	100.0%	100.0%

Table 2 – Percentage of Senior Households, Incomes less than 125% of LICO-AT, 2007

Percent Distribution	Unattached Women 65 and Older	Unattached Men 65 and Older	Elderly Couples
Less than 125% of LICO	37.2%	30.1%	5.0%
More than 125% of LICO	62.8%	69.9%	95.0%
Total	100.0%	100.0%	100.0%

Table 3 – Number of Senior Households, Incomes less than 125% of LICO-AT, 2007

Number of Families	Unattached Women 65 and Older	Unattached Men 65 and Older	Elderly Couples
Less than 125% of LICO	321,000	102,000	53,000
More than 125% of LICO	542,000	237,000	1,012,000
Total	863,000	339,000	1,065,000

When both poor and near-poor seniors are considered, the difference between those who are unattached and those living in couples is striking. Five percent of elderly couples live within 125% of the LICO-AT – more than double the number below the LICO, yet still quite low. A much higher percentage of unattached seniors – 35.2% overall – are living at these income levels.

Is it acceptable that seniors living alone are so much more vulnerable to living in or near low income than those living in couples? Tables 1-3 show clear differences in income that are not justifiable, particularly given the fact that it is single women who are, at least in terms of overall numbers, most likely to find themselves in straightened economic circumstances.

C. Income Sources among Seniors – Now and in the Future

Another piece of the retirement income puzzle is the *source* of retirement benefits among different groups of seniors. As with the incidence of low income, it is instructive to examine sources of income between various populations.

In 2007, almost all seniors received OAS benefits, while about 35% received the GIS. Ninety percent of seniors received CPP/QPP benefits – up from only 50% in 1980. Almost 60% reported income from investments, with a similar percentage reporting income from private pension plans. Only 9% received income from a Registered Retirement Savings Plan (RRSP),[13,14] though current savings trends show that RRSPs will play a larger role in the retirement incomes of future seniors – 35% of Canadians utilized this savings vehicle in 2006.

The picture changes when Canadian subpopulations are analyzed separately. For example, in 2006 only 3% of Canadians in the lowest income quintile contributed to an RRSP – down from 6% in 1997. The figure is only 17% – down from 23% in 1997 – for those in the second income quintile.

The situation is similar for other types of private saving: 9% of Canadians in the lowest income quintile (29% in the second quintile) participate in private retirement savings plans; 6% in this quintile (15% in the second quintile) are covered by employer-sponsored pension plans.[15]

Overall, low income seniors are highly dependent on the first and second tiers of retirement savings – OAS/GIS and the CPP. Several factors make it likely that this will remain the case in the coming years:

1. The recent economic downturn, and resulting elevated unemployment, will push rates of low income up from the historically low levels seen in 2007. This will:
    a. Increase, or at least maintain, reliance on the OAS/GIS for a large percentage of overall income – pegged at 23% of seniors' income in 2007[16]
    b. Make it difficult for a significant proportion of the population to increase their private retirement savings, including RRSPs

2. Given the maturation of CPP/QPP benefits among both women and men, the program as it stands will not play a role in significantly increasing income levels among future seniors.

D. Assessing the Income Security of Current and Future Low Income Seniors

The above findings inform the following points:

1. Simple measures of low income, such as the Low income cut-off, provide an insufficient picture of the life situations of low income seniors.

2. In current practice, low income measurements (i.e. LICO, Market Basket Measure [MBM] and Low Income Measure [LIM]) utilize the same income

thresholds to assess the incidence of low income among senior and non-senior households. This is the case even though state-provided benefits to seniors and non-seniors – the respective adequacy of which are evaluated using the LICO, LIM, etc. – are based on different philosophies. For example:

   a. Provincial social assistance benefits are largely meant to offer a basic needs income, lower than most incomes available through work, to households expected to re-enter the workforce
   b. Pension benefits are meant, at least in part, to recognize the lifetime contributions of seniors to the well-being of their country

   Given the philosophical basis of Canada's publicly-managed pension system, current measures of low income may not be optimal indicators of pension adequacy.

3. The average low income senior household has an income *well below* the LICO-AT.

4. Single unattached seniors – particularly women – are much more likely than those living in couples to be poor or near-poor.

5. The differences in rates of poverty and near-poverty among unattached seniors versus those living in couples is unfair and unjustifiable.

6. The problem of low income among current and future seniors will not improve without changes to Canada's retirement income system.

E. Evaluating the Options

Many recommendations have been put forward re: Canada's retirement income system, including those that counsel no changes, those that would expand the CPP/QPP, and those that would expand the role of the private sector and of private savings vehicles. The Department of Finance has organized these recommendations into three broad themes: (1) increase flexibility for private-sector, defined-contribution pension plans and increased opportunities for private savings; (2) implement a government-sponsored defined contribution pension plan; (3) expand the Canada Pension Plan.[17] The following section briefly inspects the likelihood that each of these broad program themes will lead to increased pension savings, and retirement incomes, among low income seniors.

As noted above, participation in voluntary savings vehicles (e.g. RRSPs, employer-sponsored pension plans) among low income Canadians is quite low. It seems unlikely that legislative changes directed at the private sector, e.g. increasing annual contribution limits on RRSPs or Tax-Free Savings Accounts (TFSA), would significantly change this fact. Low income Canadians, particularly those experiencing persistent low income, simply do not have sufficient income to contribute significantly to tax-assisted savings vehicles.

It is possible that a government-sponsored defined contribution program, particularly one involving auto-enrolment, would increase participation in retirement savings among low income Canadians. It is debatable, again, whether adequate incomes exist to grow significant defined contribution retirement savings among this population. Any such program would require significant pre-implementation consultation with those living on low incomes.

With regard to the possible expansion of CPP benefits, the Department of Finance consultation document outlines several possibilities:

1. Double the CPP replacement rate to 50% while maintaining the current maximum earnings threshold ($47,200 in 2010)
2. Maintain the current 25% replacement rate, while increasing the maximum earnings threshold (e.g. up to $94,400)

It seems fairly clear that low income Canadians, particularly those experiencing persistent low income, would stand to benefit more from the first versus the second proposal – you can't replace what you never had. In both cases, increased employer and employee contributions to the CPP would be required; as the Department of Finance document points out, without a recognition of low income (e.g. a CPP contribution tax credit), what percentage contribution could low income Canadians bear without sacrificing their standard of living?

F. Questions and Recommendations

This paper has provided an overview and analysis of issues surrounding the retirement income system, and potential changes to that system, among low income Canadians. It raises several questions that need to be answered as the federal government moves forward on its consultations:

1. Why do so many seniors – particularly those who live alone – continue to live in low income?

2. How could low income among seniors be measured in a way that adequately assesses the necessary resources to live in health and dignity, and that recognizes their contribution to society?

3. Under what circumstances, if any, would low income Canadians increase their participation in RRSPs and private retirement savings?

4. Under what circumstances, if any, would low income Canadians be able to save enough through defined contribution pension plans to make a significant impact on in overall retirement incomes?

5. What role could shared-contribution employer pension plans play in increasing the incidence and rate of retirement saving among low income Canadians?

6. At what level would CPP/QPP contribution rates have negative economic, health, social etc. effects on low income Canadians?

Food Banks Canada does not believe that current rates of low income and near-low income among single, unattached seniors – or among any group of seniors – are acceptable. We recommend that the federal government move immediately to address low income among seniors, with particular attention to the unfair rates of low income and near-low income among single unattached seniors. Potential actions may include:

1. Implement and/or support research to address the six questions posed above.

2. Continue to increase uptake of the Guaranteed Income Supplement (GIS) among low income seniors. Community groups across the country, with support from federal, provincial and municipal governments, have done much to address this issue, however more than 100,000 eligible seniors do not currently receive the GIS.[18]

3. Increase GIS benefit levels. While the OAS and GIS bring many low-income seniors above the after-tax LICO, the maximum OAS/GIS payment of about $14,000 per year is still quite meagre for single people.

4. Implement a strengthened GIS for single, unattached seniors. An overweighting of benefits to this population may help to bring rates of low income more in line with seniors living in couples.

5. Ensure that any changes to Canada's retirement income system take account of the needs of low income Canadians – both the seniors of today and of the future.

6. Assess the economic well-being of Canadian seniors with reference to disaggregated population groups – not only to single unattached seniors, but also to women, visible minorities, immigrants, people with physical, mental health and intellectual disabilities, etc. Simply referring to seniors as an aggregate hides as much as it reveals.

These recommended actions are specific, targeted, and affordable – at $8 billion per year, the GIS accounts for a small percentage of the federal budget. As it stands, the first tier of Canada's pension system is not adequately meeting its objective of addressing senior poverty and recognizing the contribution of seniors to Canada's prosperity. These recommendations will go some way to addressing this fact.

About Food Banks Canada

Food Banks Canada is the national charitable organization representing and supporting the food bank community across Canada. Our members and their respective agencies serve 85% of people accessing emergency food programs nationwide. Our mission is to meet the short-term need for food, and to find long-term solutions to hunger. Please visit www.foodbankscanada.ca for more information.

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NOTES

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[2] Department of Finance Canada (2009). Strengthening the legislative and regulatory framework for private pension plans subject to the Pension Benefits Standards Act, 1987. Available: http://www.fin.gc.ca/activty/consult/pensions-eng.asp , accessed 08/11/2010.

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[4] Statistics Canada (2008). *Earnings and incomes of Canadians over the past quarter century, 2006 Census*.

[5] National Council of Welfare (2009). *Welfare incomes 2008, Bulletin no. 1*. Available: http://www.ncwcnbes.net/en/research/welfareincomes2008/bulletin1.html, accessed 04/17/2010.

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[7] Herd, D., Mitchell, A. and Lightman, E. (2005). Rituals of degradation: Administration as policy in the Ontario Works program. *Journal of Social Policy and Administration, 39, 1*: 65-79.

[8] Statistics Canada (2009).

[9] Food Banks Canada (2009). *HungerCount 2009*. Toronto: Food Banks Canada.

[10] Statistics Canada (2009). **Statistics Canada notes that, due to a high coefficient of variation, this figure is to be used with caution.

[11] Defining "near-poor" as below 125% of the LICO-AT is a modest estimate of this population. Other studies have utilized 150%, 180%, and 200% of low income measures to identify "near-poor."

[12] Information courtesy of the National Council of Welfare (based on custom tabulations from Statistics Canada's Survey of Labour and Income Dynamics).

[13] Human Resources and Social Development Canada (2010). *Indicators of well-being in Canada; Financial security – Retirement income.* Available: http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=27.

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[16] Human Resources and Social Development Canada (2010).

[17] Department of Finance Canada (2010).

[18] M. Luong (2009).