Food Banks Canada Banques alimentaires Canada

***Food Banks Canada Commentary* :**

It's RRSP season – if you have the money

As tax time approaches, the web is abuzz with advice on smart investing. RRSP, TFSA, RESP, bonds, mutual funds, GICs – it's enough to make your head spin. Unfortunately, for a large number of Canadians it's pretty much irrelevant.

According to Statistics Canada, 35% of Canadians contribute each year to an RRSP. For those in the lowest income quintile (that is, Canada's poorest citizens) this figure drops to less than 10%. Nor do those at the bottom of the income scale save in other ways: less than 10% contribute to private retirement savings or employer-sponsored pension plans.

This is perhaps not surprising to anyone paying attention to recent reports on the amount of debt Canadians are carrying, the number of families living paycheque to paycheque, or levels of food bank use (up by 28% in the past two years). Nevertheless, though Canada's federal and provincial ministers of finance have been holding high-level discussions on retirement incomes for more than a year, this particular problem has not been a priority.

The nation's ministers of finance have – commendably – come together to solve a simple problem: people aren't saving enough for their retirement. Many of the proposed solutions to this problem assume that the savings deficit is merely a motivational issue – the thinking is that the money is there, Canadians just aren't putting it in the right places. Solutions of this type ignore the realities of low income people. The proposed Pooled Registered Pension Plan, for example, is unlikely to have an effect on savings among those at the bottom of the income scale. You can implement one new savings program, or you can implement ten – if a family is going to the food bank because they have no money left over after paying the rent, they are not going to find more to save, regardless of any new incentive to do so.

The long-term effects of this inability to save are plain to see. Though poverty among seniors has dropped drastically overall (from 29% in 1976 to 5% in 2007), this good news has not been spread evenly. Particularly problematic is the fact that seniors living alone remain highly likely to be poor, with 1 in 7 people in this group – about 250,000 people across the country – living in poverty (as measured by Statistics Canada's after-tax low income cut-off).

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With all the positive things that are said about our progress in reducing low income among seniors, some may be surprised to learn that a central piece of our retirement system – Old Age Security, including the Guaranteed Income Supplement and the Survivor's Allowance – offers, for many seniors, poverty-level benefits. For single seniors in larger urban areas, the maximum annual OAS/GIS benefit of $14,231 is actually below the level at which, according to Statistics Canada, one can be reasonably expected to afford even basic goods and services.

There is no acceptable reason why Canada's public pension system should contribute to such a state of affairs, and the solution is a simple one – increase the Guaranteed Income Supplement, with an over-weighted increase for single seniors. At the very least, the combined OAS/GIS must bring all seniors receiving the maximum annual benefit above the after-tax low income cut-off.

The problem of insufficient retirement savings among low-income Canadians still in the labour force is a much more difficult problem. It is an issue of pressing concern – the inability to save leads inexorably to a greater burden on the public pension system in the future. To solve the problem even partially would have a two-fold benefit: more money for individuals in retirement, and fewer resources spent on public pension benefits in future years. There are a number of factors contributing to the problem, which can be placed under two umbrellas: first, compared to similar nations, Canada has a relatively high proportion of low-paying jobs, with a large number of individuals cycling between low-paying work and public income support. Second, too many Canadians lack the skills necessary to be considered for well-paying jobs.

These are sticky and complex issues, enough so that six provinces have implemented poverty reduction strategies to address them. The federal government has jumped into the fray to provide a leadership role on retirement incomes – why not do the same for pre-retirement incomes?