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NOTE TO READERS

This fourth series of Aging Vignettes has been designed by the National Advisory Council on Aging (NACA) to provide a statistical portrait of Canada's retirement income system. They are produced as a part of NACA's mandate to disseminate information and are intended for people who are interested in aging and retirement income and who care about seniors.

In these Vignettes, the word 'seniors' refers to people aged 65 and over (65+). This is not meant to suggest that the population group 65+ represents a homogeneous group. The Council recognizes that seniors are as heterogeneous and often more so than other age groups.

As a rule the latest data available were cited. Because the sources are varied and may cover a number of years, the year the data was collected is referenced. As was the case with previous series of Vignettes that provided a variety of information on seniors, the reader will note that no effort was made to analyze or interpret the facts stated in this series.

The Council welcomes your comments on these Aging Vignettes and suggestions for future editions.

AGING VIGNETTE #51

A Quick Portrait of Canada's Retirement Income System

Basic Objectives?

- Canada's retirement income system is a multi-tiered structure composed of public and private elements, and within each layer, various programs and benefits.
- The retirement income system is intended to achieve two basic objectives:
 - 1) the anti-poverty objective: to ensure a basic adequate minimum income for every elderly Canadian
 - 2) the income-replacement objective: to maintain a reasonable relationship between Canadians' incomes before and after retirement so that they do not experience a drastic drop in their standard of living when they leave the work force.
- This pension system should replace between 70 to 80% of pre-retirement income. This level is regarded as adequate because pensioners typically
 - have lower expenses than when they were working
 - do not pay payroll taxes
 - do not have to contribute to employer-sponsored pension plans or RRSPs
 - have certain tax breaks that reduce their income taxes.

Sources:

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1995.

AGING VIGNETTE #52

A Quick Portrait of Canada's Retirement Income System

What is the Public Pension System Made of?

- The federal government's public pension system is made up of Old Age Security (OAS), Guaranteed Income Supplement (GIS), Spouse's Allowance (SPA), and the Canada Pension Plan (CPP). Quebec operates the parallel Quebec Pension Plan (QPP).
- In 1996, OAS pays a maximum of \$4,690 to all women and men aged 65+ (providing they lived in Canada for at least 10 years or immigrated from countries which had international social security agreements with Canada). Seniors with individual net incomes above \$53,215 repay 15% of their OAS benefits for every dollar of income above this threshold.
- The SPA provides benefits equal to OAS and GIS to the 60 to 64 year old spouses of pensioners who receive OAS and GIS and benefits to widowed persons aged 60 to 64. It is an income-tested program which pays its maximum amount to the poorest and a partial and declining amount to eligible people with other sources of income.
- The GIS was created in 1967-it is an income-tested or selective social program which is geared to low- and modest-income seniors.
- In 2001, the Seniors Benefit will replace OAS and GIS. Single seniors and couples with incomes up to approximately \$40,000 will receive full benefits. Those who receive GIS and SPA will get \$120 more per year. The benefits and the threshold at which benefits begin to be reduced will be fully indexed to inflation.

Sources:

Human Resources Development Canada. *Statistics Related to Income Security Programs*. Ottawa: March 1995.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1 1995.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. Expression, 10, 3, (1996).

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

Finance Canada. *The Seniors Benefit: Securing the Future*. Ottawa: March 1996.

AGING VIGNETTE #53

A Quick Portrait of Canada's Retirement Income System

What are the Canada and Quebec Pension Plans?

- The Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP) were established in 1966 to provide pension and other benefits to workers.
- CPP/QPP provides a pension to retired persons aged 60+, disability benefits to contributors with a serious disability that prevents them from working, and survivor benefits to spouses and children of deceased contributors and a death benefit paid to the deceased contributor's estate.
- Upon retirement at age 65, contributors receive a CPP pension of 25% of their average annual earnings, up to a maximum of \$727 per month.
- Contributors who retire before 65 receive a full retirement pension that is actuarially-reduced by one-half of one percent for every month before age 65.
- CPP/QPP is a 'pay-as-you-go' plan. Contributions made by employees, the self-employed and employers pay for the pensions of those who are retired.
- In 1996, employees contribute 2.8% of their earnings between \$3,500 and \$35,400, up to a yearly maximum of \$893, matched by a 2.8% contribution made by their employers. The self-employed pay the full 5.6%, up to a yearly maximum of \$893. In 1995, there were 9.7 million contributors to CPP/QPP.
- Contribution rates are scheduled to rise to pay for the pensions of a growing seniors population. In 2040, total employer-employee contribution rates are expected to be 14.2%.
- The federal and provincial governments are consulting Canadians on ways to reform CPP to keep it affordable beyond the year 2000. Options include increasing contributions and decreasing benefits.

Sources:

Human Resources Development Canada. *Statistics Related to Income Security Programs*. Ottawa: March 1995.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1995.

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

Human Resources Development Canada. Results Measurement Unit. *An Information Paper for Consultations on the Canada Pension Plan*. Federal/Provincial Paper on the CPP, February 1996.

AGING VIGNETTE #54

A Quick Portrait of Canada's Retirement Income System

How Much do Seniors Rely on Public Pensions?

- At last count (1993), 60% of the income of single Canadians aged 65+ came from government programs:
 - 36.8% from OAS/GIS
 - 18.4% from CPP/QPP
 - 4.6% from other government programs.
- In 1993, low-income single seniors were much more reliant on public programs, at a rate of 90%:
 - 65.8% from OAS/GIS
 - 18.4% from CPP/QPP
 - 5.0% from other government programs.
- In 1993, among all senior couples, 41 % of their incomes were derived from government programs:
 - 21.6% from OAS/GIS
 - 14.4% from CPP/QPP
 - 4.6% from other government programs.
- In 1995, low-income senior couples relied upon public programs for 83% of their income:
 - 54.9% from OAS/GIS
 - 15.0% from CPP/QPP
 - 13.1 % from other government programs.

Source:

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

AGING VIGNETTE #55

A Quick Portrait of Canada's Retirement Income System

How Much do Seniors Rely on Sources of Income Other than Public Pensions?

- At last count (1993), 40% of the income of single Canadians aged 65+ came from other sources than government programs:
 - 18.6% from private pensions
 - 16.9% from investment
 - 4.7% from employment earnings
 - 1.2% from other sources.
- In 1993, low-income single seniors relied on other income sources at a rate of:
 - 4.4% from private pensions
 - 6.3% from investment.
- In 1993, among all senior couples, 59% of their income was derived from private sources:
 - 18.4% from employer pensions
 - 13.6% from investments
 - 26.3% from wages and salaries
 - 1.1% from other sources.
- In 1995, other sources that low-income senior couples relied upon were:
 - 1.9% from private pensions
 - 4.3% from savings and investments
 - 6.9% from employment earnings
 - 3.9% from other private sources.

Source:

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

AGING VIGNETTE #56

A Quick Portrait of Canada's Retirement Income System

Are Public Pensions Generous?

- In 1995, OAS and the maximum GIS for a single person aged 65+ amounted to \$10,264, i.e.:
 - \$6,544 below the low income cut-off (LICO which is accepted as the poverty line) for a metropolitan centre (500,000 people or more)
 - \$3,058 below the LICO for an urban centre (less than 30,000 people).
- In 1995, OAS and the maximum GIS for a senior couple amounted to \$16,642, i.e.:
 - \$4,450 below the LICO for a metropolitan centre
 - \$74 below the LICO for an urban centre.
- In 1995, the maximum OAS/GIS benefits for single seniors amounted to 61% of the LICO. Those single seniors receiving OAS, GIS and maximum CPP/QPP make 86% of the LICO.
- A single senior who relies solely on OAS, GIS and CPP/QPP will have an income equal to just 42% of the average Canadian annual wage.
- For senior couples living in a metropolitan area, OAS/GIS amounts to 79% of the LICO. Those senior couples receiving OAS, GIS and CPP/QPP make 99% of the LICO.
- A senior couple that relies solely on OAS, GIS and CPP/QPP will have an income equal to 61% of the average Canadian annual wage.

Sources:

Statistics Canada. *Low income Cut-Offs (LICOs)*. Ottawa: 1996.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1995.

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. Expression, 10, 3, (1996).

AGING VIGNETTE #57

A Quick Portrait of Canada's Retirement Income System

What are Seniors' Income?

- In 1994,
 - the average income of families headed by a senior was \$40,183
 - the average income of all families was \$54,153
 - the average income of single seniors was \$18,780
 - the average income of single non-seniors was \$25,604.
- In 1994, only 23.8% of families headed by a senior had incomes of \$50,000 or more, compared with 47.6% of all families.
- In 1969,
 - 41.4% of families headed by a senior had incomes below the LICO
 - 17.2% of families with a head below age 65 had incomes below the LICO.
- In 1994,
 - 7.1% of families headed by a senior had incomes below the LICO
 - 14.6% of families with a head below age 65 had incomes below the LICO.
- Over the past 25 years, poverty rates among seniors have been reduced significantly. They went from 69.1 % to 47.6% between 1969 and 1994.
- In 1995, about 55% of unattached seniors had incomes below \$15,000.
- In 1995,
 - about 60% of one-income senior couples had incomes below \$30,000
 - 40% of two-income senior couples had incomes below \$30,000.

Sources:

Statistics Canada. *Income Distributions by Size in Canada 1994*. Cat. No. 13-207. Ottawa: 1995.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. Expression, 10, 3, (1996).

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

AGING VIGNETTE #58

A Quick Portrait of Canada's Retirement Income System

How Much do Public Pensions Cost?

- In 1995, an estimated
16 billion was paid out to 3.5 million beneficiaries of OAS
\$4.7 billion was paid out to 1.4 million beneficiaries of GIS
\$436 million was paid to 108,000 beneficiaries of SPA
while
just under \$2 billion was paid to 671,240 beneficiaries of OAS in 1952
\$1.1 billion was paid to 703,550 beneficiaries of GIS in 1967, and
\$282 million was paid to 64,000 beneficiaries of SPA in 1975
(in inflation-adjusted 1995 dollars).
- Expenditures on OAS, GIS, and SPA have shown a significant upward climb over the past four decades—from \$2 billion to \$21.2 billion between 1952 and 1995.
- In 1995, the CPP paid out,
\$10.4 billion in retirement pensions
\$ 2.2 billion in survivor benefits
\$ 3.0 billion in disability pensions
\$228 million in death benefits.
- Of the 705,338 survivor pensions paid out in 1994, 89.3% went to women.

Sources:

Human Resources Development Canada. *Statistics Related to Income Security Programs*. Ottawa: March 1995.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1995.

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

AGING VIGNETTE #59

A Quick Portrait of Canada's Retirement Income System

How Much will Public Pensions Cost in the Future?

- The OAS program will pay out a forecasted
 \$40 billion to 8.4 million beneficiaries by 2040
 \$50 billion to 10.8 million pensioners by 2100.
- In 2020, CPP/QPP contributions by employees are expected to reach approximately 6.2% of their earnings, matched by a 6.2% contribution made by employers.
- By 2040, it is estimated that contributions to CPP/QPP will be 7.1 0/0 for employees and 7.1 % for employers.
- The yearly maximum contribution made to CPP/QPP was \$851 in 1995. It will be approximately \$1,985 in 2020 and \$2,237 by 2040 (in inflation-adjusted 1995 dollars).

Sources:

Office of the Superintendent of Financial Institutions Canada. *Canada Pension Plan Fifteenth Actuarial Report as at 31 December 1993*. Ottawa: 1995.

Office of the Superintendent of Financial Institutions Canada. *Old Age Security Program: Second Statutory Actuarial Report*. Ottawa: December 1 991.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1995.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. Expression, 10, 3, (1996).

AGING VIGNETTE #60

A Quick Portrait of Canada's Retirement Income System

How Much do Governments Recover Through Taxes?

- The government collects income taxes on OAS, recouping part of the program's cost-Ottawa will recover \$2 billion of the \$16.5 billion it paid out in 1995-the provinces will collect an estimated \$1.1 billion in provincial taxes.
- In 1995, the clawback on OAS will net the government another \$400 million.
- The total federal recovery on OAS is \$2.4 billion or 14% of gross OAS payments.

Sources:

Government of Canada. *Creating a Healthy Fiscal Climate: The Economic and Fiscal Update*. Ottawa: 1994.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. *Expression*, 10, 3, (1996).

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

AGING VIGNETTE #61

A Quick Portrait of Canada's Retirement Income System

What about Private Pensions?

- In 1993, only 35% of the labour force belonged to an employer-sponsored private pension-the self-employed and the unemployed are not eligible to these pensions.
- In 1980, 47.7% of paid workers were covered by private pension plans; however, by 1993, coverage had declined to 44.6%.
- Private pension plans typically decline in value over the course of retirement. Among those receiving private pensions in 1992,
 - 14.2% enjoyed the security of fully indexed benefits
 - 29.6% were in private pension plans that provided for some form of automatic adjustment of benefits but less than full protection from inflation
 - 56.3% belonged to plans that made no provision for inflation protection.

Sources:

Statistics Canada. *Pension Plans in Canada*. Ottawa: 1994.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. Expression, 10, 3, (1996).

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

AGING VIGNETTE #62

A Quick Portrait of Canada's Retirement Income System

What about RRSPS?

- RRSPs are largely the preserve of Canadians with above average incomes. In 1991, 77% of Canadians who filed tax returns were entitled to contribute to an RRSP
31% of those entitled actually made a contribution.
- The higher their income, the more money people were able to put into RRSPS, in 1991:
3% of those with incomes under \$10,000 contributed
52% of those with incomes from \$40,000-50,000 contributed
73% of those with incomes \$250,000 and above contributed.
- In 1992,
the average RRSP contribution was \$3,057. The average was:
\$1,027 for taxfilers with incomes under \$10,000
\$3,075 for taxfilers with incomes from \$40,000-50,000
\$11,764 for those with incomes over \$250,000.
- Total contributions to RRSPs rose from \$10.6 billion to \$14.8 billion between 1990 and 1992, a 39.6% increase.
- In 1992, the RRSP tax assistance cost the federal and provincial governments an estimated \$8.7 billion.
- In 1992, the average income tax savings from the RRSP tax deduction were:
\$68 for taxfilers with incomes under \$10,000
\$1,233 for taxfilers with incomes from \$40,000-50,000
\$5,240 for taxfilers with incomes over \$250,000.

Sources:

Revenue Canada. *Taxation Statistics*. Ottawa: Supply and Services Canada, various years.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*.
Expression, 10, 3, (1996).

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished.
Ottawa: December 1995.

AGING VIGNETTE #63

A Quick Portrait of Canada's Retirement Income System

Who Retires Earlier and Why?

- In 1994, the average age of retirement was 61.
- Between 1989 and 1994, there was a 30% increase in the number of people reporting that they had retired early because they had lost their job and were unable to find other employment.
- On average, the higher the household income, the lower the retirement age.
- Women most often cite health and family responsibilities as reasons for retiring early.

Source:

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*.
Expression, 10, 3, (1996).

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AGING VIGNETTE #64

A Quick Portrait of Canada's Retirement Income System

Are there Differences between Women and Men?

- Women are more likely than men to retire early. In fact:
65% of women started receiving CPP/QPP before the age of 65
57% of men started receiving CPP/QPP before the age of 65.
- In 1993, the average CPP benefit was:
\$274 a month or \$3,288 a year for women
\$477 a month or \$5,724 a year for men.
- In 1993,
42% of female paid workers and
47% of male paid workers were covered by an employer-sponsored pension plan.
- In 1992,
21 % of women who filed a tax return contributed to an RRSP and
29% of men who filed a tax return contributed to an RRSP.
- The average RRSP contribution was:
\$3,509 for men, and
\$2,444 for women.
- Between 1980 and 1993, the percentage of people with paid jobs who were covered by private occupational pension plans:
dropped from 54.2% to 46.8% for men
increased from 36.2% to 41.9% for women.
- Between 1981 and 1992, the average private pension (in inflation adjusted 1992 dollars) rose from:
\$8,489 to \$10, 999 for men
\$6,150 to \$6,583 for women.

Sources:

Revenue Canada. *Taxation Statistics*. Ottawa: Supply and Services Canada, various years.

Statistics Canada. *Pension Plans in Canada*. Cat. No. 13-207. Ottawa: 1994.

Human Resources Development Canada. *Statistics Related to Income Security Programs*. Ottawa, March 1995.

Caledon Institute. *Key Issues in Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: December 1995.

Caledon Institute. *Beneath the Five Principles for Pension Reform*. Background Paper prepared for NACA, unpublished. Ottawa: November 1995.

National Advisory Council on Aging. *Canada's Retirement Income System: Myths and Realities*. Expression, 10, 3, (1996).

AGING VIGNETTE #65

A Quick Portrait of Canada's Retirement Income System

What did NACA Consultations Reveal?

- In 1995, NACA consulted with over 200 seniors and near seniors to obtain their views.
- When asked how they might increase their income if faced with financial hardship, 69% of all participants reported they could do nothing to increase their income (75% were women, 61 % were men).
The perception is that one can do nothing to raise one's income with advancing age.
- When asked about their financial future,
51 % of all participants felt they had enough income at the time of the consultation, but were worried about future income adequacy
32% of women and 25% of men judged they did not have enough money at the time of the consultation and that their income would not improve.
- When asked if they could have saved more for their retirement, 80% of all respondents said they could not.
87% of women reported they could not save more
70% of men reported they could not save more.
The judgement that one could have saved more increases with rising income.

Source:

Summary of results of NACA consultation on retirement income, 1995.