

SENATE



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CANADA

THE DEMOGRAPHIC TIME BOMB:

MITIGATING THE EFFECTS OF DEMOGRAPHIC CHANGE IN CANADA

“The demographic die is cast: there is little we can do to reverse or even slow the ag(e)ing of Canada’s population over the coming decades. But it is certainly within our power to plan better for it. And better planning begins with better information concerning the long-term fiscal implications of the coming demographic shift.”

Auditor General of Canada

Report of the
Standing Senate Committee on Banking, Trade and Commerce

The Honourable Jerahmiel S. (Jerry) Grafstein, Q.C., Chair
The Honourable W. David Angus, Q.C., Deputy Chair

and the Honourable Senators

Michel Biron
J. Trevor Eyton, Q.C.
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Michael A. Meighen, Q.C.
Wilfred P. Moore, Q.C.
David Tkachuk

June 2006

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banking_banques@sen.parl.gc.ca.

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*Report of the
Standing Senate Committee on
Banking, Trade and Commerce*

(reprint)

June 2006

MEMBERSHIP

The Honourable Senator Jerahmiel S. (Jerry) Grafstein, Q.C., Chair

The Honourable Senator W. David Angus, Q.C., Deputy Chair

and

The Honourable Senators:

Michel Biron

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Clerk of the Committee

Dr Line Gravel

ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Tuesday, May 2, 2006:

The Honourable Senator Grafstein moved, seconded by the Honourable Senator Moore:

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to examine and report on issues dealing with the demographic change that will occur in Canada within the next two decades; the implications of that change for Canada's economy, labour market and retirement income system; and federal actions that could be taken to ensure that any implications of future demographic change are, to the extent possible, properly addressed;

That the papers and evidence received and taken on the subject during the Thirty-eighth Parliament and any other relevant Parliamentary papers and evidence on the said subject be referred to the Committee; and

That the Committee submit its final report no later than June 30, 2006.

The question being put on the motion, it was adopted.

Paul C. Bélisle

Clerk of the Senate

- - -

Extract from the *Journals of the Senate* of Wednesday, May 31, 2006:

The Honourable Senator Grafstein moved, seconded by the Honourable Senator Corbin:

That the Standing Senate Committee on Banking, Trade and Commerce which was authorized by the Senate on May 2, 2006 to examine and report on issues dealing with the demographic change that will occur in Canada within the next two decades, be authorized to retain until July 31, 2006 all powers necessary to publicize its findings.

After debate,

The question being put on the motion, it was adopted.

Paul C. Bélisle

Clerk of the Senate

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DEMOGRAPHIC CHANGE FACTS

- **Canada's birth rate is about 40% below the level needed to avoid long-term population loss. (p.4)**
- **By 2031, about 25% of Canadians will be aged 65 years or older, up from 13% currently. (p.5)**
- **Per capita public spending on healthcare for those age 65 and over is estimated to be almost five times greater than spending on the rest of the population. (p. 31)**
- **Since 2000, immigration has represented more than 60% of the observed population growth in Canada, and it will be more difficult for Canada to attract immigrants in the next 10-20 years since we will be competing with other countries for immigrants and historical sources of immigrants are facing ageing populations and declining birth rates. (p. 7, 28)**
- **By 2030, it is predicted that there will be 40 retirees for every 100 working-age persons, up from 21 for every 100 in 2003. (p. 9)**
- **Old Age Security/Guaranteed Income Supplement payments are expected to raise between 0.5% and 1% of Gross Domestic Product by 2030 and public health costs are expected to raise between 2.5% and 4% of Gross Domestic Product by 2040. (p. 33)**

Please note that this summary of the recommendations should be read in the context of the reasoning presented in the body of the report. For an indication of the appropriate section of the report, please see the page number at the end of the recommendation.

RECOMMENDATIONS

1. The federal government amend the *Income Tax Act* to reduce personal income tax rates and to increase the thresholds at which these rates are paid. In particular, these rates and thresholds should provide incentives to work and to remain employed within Canada. (p. 22)
2. The federal government review current initiatives to encourage lifelong learning, with a view to determining their effectiveness. The government should also explore additional tax and non-tax incentives for employees and employers that might be implemented to enhance this learning.

The review, and any consequential changes or new measures that are required to ensure lifelong learning, should occur no later than 31 March 2007. (p. 22)

3. The federal government amend the *Canadian Human Rights Act* to provide that terminating an individual's employment because he or she has reached the normal age of retirement for employees working in similar positions would constitute a discriminatory practice.

As well, the government should ensure that the *Canadian Human Rights Act* continue to protect persons against employment-related discrimination, particularly based on gender and age.

Moreover, the government should, during its next meeting with stakeholders regarding Part III of the *Canada Labour Code*, explore the types of amendments that would be needed to provide employees with the flexibility that could ensure their continued, if not enhanced, participation in the labour market. The focus should be changes – such as pro-rated benefits for part-time workers, elder care and flexible working hours – that would enhance the labour force participation of older persons as well as other workers, including women. (p. 23)

4. The federal government amend the *Old Age Security Act* to:
 - allow receipt of Old Age Security benefits to be deferred, with appropriate actuarial adjustments;
 - exempt a portion of employment earnings from the clawback provision associated with the Guaranteed Income Supplement program; and
 - ensure that the amount and timing of the Spouses Allowance does not represent a disincentive to the labour force participation of recipients.

Moreover, the Minister of Finance should, at the next meeting with provincial/territorial Ministers responsible for the Canada Pension Plan, pursue the following changes to the Plan:

- remove the requirement that individuals must cease to be employed before beginning to receive retirement benefits;
- amend the actuarial adjustment that occurs when retirement benefits are received earlier than age 65 by increasing the adjustment to 8% per year; and
- permit pension credits to continue to be accumulated on the basis of employment earnings after age 65.

Finally, the government should amend the *Income Tax Act* to permit registered pension plans to make pension payments to individuals currently earning employment income from the employer that is the plan sponsor or from a related employer. These plans should also allow employees to accrue pension credits on the basis of their employment. (p. 24)

5. The federal government amend the Regulations to the *Income Tax Act* to ensure that capital cost allowance rates are consistent with the useful life of assets, if not accelerated. (p. 26)
6. The federal government invite provincial/territorial governments, as required, to meet no later than 31 March 2007 in order to develop a plan:
 - to ensure that appropriate, properly funded and equitable immigrant settlement and integration services are available throughout Canada, noting the announcements contained in *The Budget Plan 2006*;
 - to provide immigrants with appropriate incentives to settle in communities throughout Canada and outside major urban centres;
 - to increase the attractiveness of Canada to qualified immigrants; and
 - with the agency for assessment and recognition of foreign credentials announced in *The Budget Plan 2006*, to recognize and reconcile the educational and professional credentials of immigrants obtained in countries other than Canada.

This plan should be made public no later than 1 September 2007. (pp. 28-29)

7. The federal government amend the *Income Tax Act* to increase the contribution limit to Registered Retirement Savings Plans to \$27,000 by 2012. Consequential amendments should also be made regarding registered pension plans. Thereafter, the limit should be increased in accordance with changes in the average wage in Canada. (p. 30)
8. The federal government, in order to ensure finances that enable age-related spending and the funding of recommendations contained in this report, pursue:
 - continued reduction in the size of the federal debt (accumulated deficit);
 - a federal net debt-to-GDP ratio of 20% by 2015; and
 - the development of a permanent mechanism by which federal tax and program expenditures are reviewed annually with a view to reducing expenditures in areas that are no longer required or relevant to Canadians. (p. 31)
9. The federal government, with respect to healthcare, engage in ongoing dialogue with First Ministers to:
 - increase accountability measures;
 - ensure that the healthcare system is effective and efficient; and
 - allocate sufficient moneys to prevention and wellness measures as well as to early diagnosis.

With respect to the public pension system, the government – along with provincial/territorial partners, as appropriate – should engage in ongoing review of the costs of the system.

Recognizing that statutory reporting requirements already exist for some programs and initiatives, the government should report to Parliament every three years on the state of the healthcare and public pension systems. (p. 35)

10. The federal government act expeditiously to implement the recommendations contained in the June 2005 report of the Standing Senate Committee on Banking, Trade and Commerce entitled *Falling Behind: Answering The Wake-Up Call – What Can Be Done To Improve Canada's Productivity Performance*, noting the measures contained in *The Budget Plan 2006*. (p. 37)

THE DEMOGRAPHIC TIME BOMB: MITIGATING THE EFFECTS OF DEMOGRAPHIC CHANGE IN CANADA

CHAPTER 1: INTRODUCTION

The demographic die is cast: there is little we can do to reverse or even slow the ag(e)ing of Canada's population over the coming decades. But it is certainly within our power to plan better for it. And better planning begins with better information concerning the long-term fiscal implications of the coming demographic shift. (*Auditor General of Canada*)

According to an economic survey of Canada in 2004 conducted by the Organisation for Economic Co-operation and Development (OECD), Canada's ageing population presents two key challenges:

- maintaining steady improvements in living standards despite increases in the old age dependency ratio; and
- ensuring that public finances across all levels of government remain sustainable in the long term, especially given the pressures on publicly financed healthcare.

In reviewing the two challenges, the Committee is reminded of our recent study on productivity. In our June 2005 report, *Falling Behind: Answering The Wake-Up Call – What Can Be Done To Improve Canada's Productivity Performance*, we indicated that Canada's productivity performance must improve if we are going to be able to meet the challenges posed by future fiscal and social pressures. We recommended actions that we feel must be taken now to enhance productivity and innovation in order that Canadians can enjoy the high standard of living and quality of life that they desire and deserve.

On 23 November 2004, the Standing Senate Committee on Banking, Trade and Commerce was authorized to convene a Roundtable discussion on the topic of the demographic change that will occur in Canada within the next two decades. In convening the Roundtable discussion, which was held on 19-20 October 2005, important goals were the identification of the demographic change that lies ahead and an exploration of the actions that might be taken now to address the economic, social and financial consequences that will accompany this change.

With that goal in mind, the Committee met with a range of domestic and international experts: academics, federal departments and public policy organizations. They provided us with valuable insights about the nature of the demographic change that will be experienced and the range of measures that might be implemented to mitigate any undesired impacts of that change.

In this report, the Committee summarizes some of the key elements in the presentations that were made to us during our brief examination of this critical topic, a topic that has been mentioned in a number of previous Parliamentary reports – including, for example, the 1966 report of the Special Senate Committee on Aging and the 2001 Interim Report of the Standing Senate Committee on Social Affairs, Science and Technology on the subject of the federal role regarding the health of Canadians – but not examined comprehensively in quite some time. We also provide our thoughts and recommendations about the actions that must be taken – on an expeditious basis – to ensure that Canadians, Canadian businesses and the nation’s economy are well-positioned for the future in light of the demographic change that lies ahead.

**CHAPTER 2:
CANADA'S DEMOGRAPHIC PROFILE
AND ANTICIPATED DEMOGRAPHIC CHANGE**

A population is a living being that changes constantly: newcomers are added, some disappear, everyone ages, families are started and come apart; and everyone, depending on the phases of life, changes roles: they start out being reared and educated, then become productive, teach others, and then retire to varying degrees of usefulness or even become dependent. There are also the characteristics attached to each individual: some remain fixed, like sex and mother tongue; others are more variable, such as occupation and place of residence. All of this constitutes a complex entity whose components vary in importance. (*Dr. Jacques Henripin, University of Montreal*)

Demographic change – including population ageing – is basically determined by three factors:

- the fertility, or birth, rate;
- the mortality, or death, rate; and
- net immigration.

Beginning in the late 19th century, and throughout most of the 20th century, life expectancy in developed countries has generally increased continuously as a consequence of improved sanitation, better nutrition, advances in medical technology and factors related to child spacing/family size.

Fertility rates, however, have generally declined. The decrease in fertility rates reflects such factors as delayed marriage and childbearing, the increased probability of divorce, the development of government transfers to the elderly, and increased availability of safe and effective contraception and abortion. As well, increases in incomes and levels of educational attainment, changes in child care and other direct and indirect child-rearing costs, and higher levels of female labour force participation have played a role.

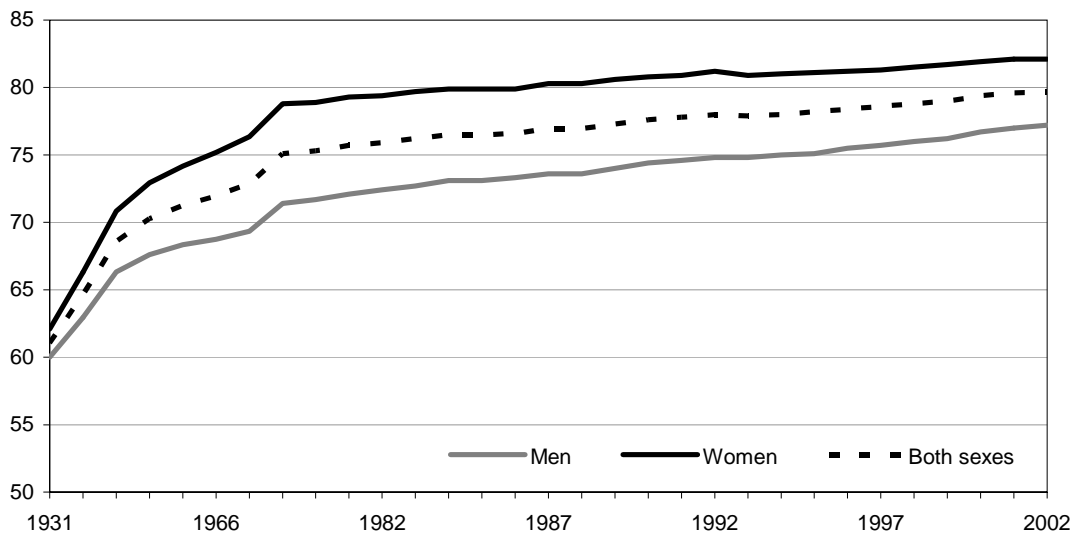
A number of the Committee's witnesses indicated that these trends are occurring throughout the world. McKinsey Global Institute said that "[t]he world is ag(e)ing. Across the globe ... falling birth rates and lengthening life spans are causing populations to age rapidly. ... Ag(e)ing and its implications are emerging as major social, political, and economic issues."

The Department of Finance told the Committee that while all developed and developing countries will face an ageing population, the "extent of ag(e)ing will be greater in Canada than in most other developed countries. ... Among the (Organisation for Economic Co-

operation and Development countries), it is likely that Canada will have the sixth largest increase in its population ratio of elderly to working-age. ... [I]t will translate into pressure on age-related government expenditures such as universal public pension and health spending. (As well), it will create downward pressures on living standards as measured by (Gross Domestic Product) per capita”

Statistics Canada told the Committee that the life expectancy for someone born now is about 77 years for Canadian men and approximately 82 years for Canadian women. We were also informed that a fertility level of 2.1 children per woman is required for population replacement; Canada has not had this level since 1971. Currently, the level of fertility is 1.5 children per woman. In the view of the New America Foundation, “Canada’s birth rate is about 40 per cent below the level needed to avoid long-term population loss.” Dr. Robert Brown, of the University of Waterloo, informed us that Canada had the largest number of live births in 1959, and the Conference Board of Canada indicated that the fertility rate peaked at four children per woman of reproductive age in that year.

Figure 1: Life Expectancy at Birth, Canada, 1931 - 2002

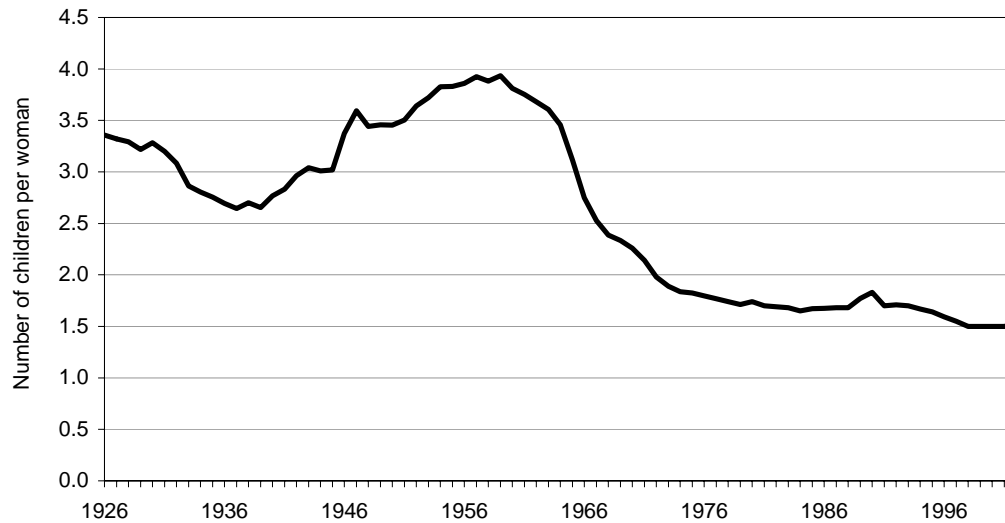


Note: Data prior to 1979 were on a census year basis, whereas data after 1979 are annual estimates.

Source: Statistics Canada, Historical Statistics series and CANSIM table 102-0511.

In commenting on Canadian fertility trends, Dr. Jacques Henripin, of the University of Montreal, said that “Canada is in the process of becoming one of the least fertile countries. ... I think we should be every bit as worried about the rate at which fertility is plummeting, as we would be were the same trend suddenly to appear amongst the animal population.” Witnesses commented on the policies in France and in Québec designed to promote increased fertility. Their opinions were divided on the extent to which pro-natalist policies are effective in increasing fertility rates.

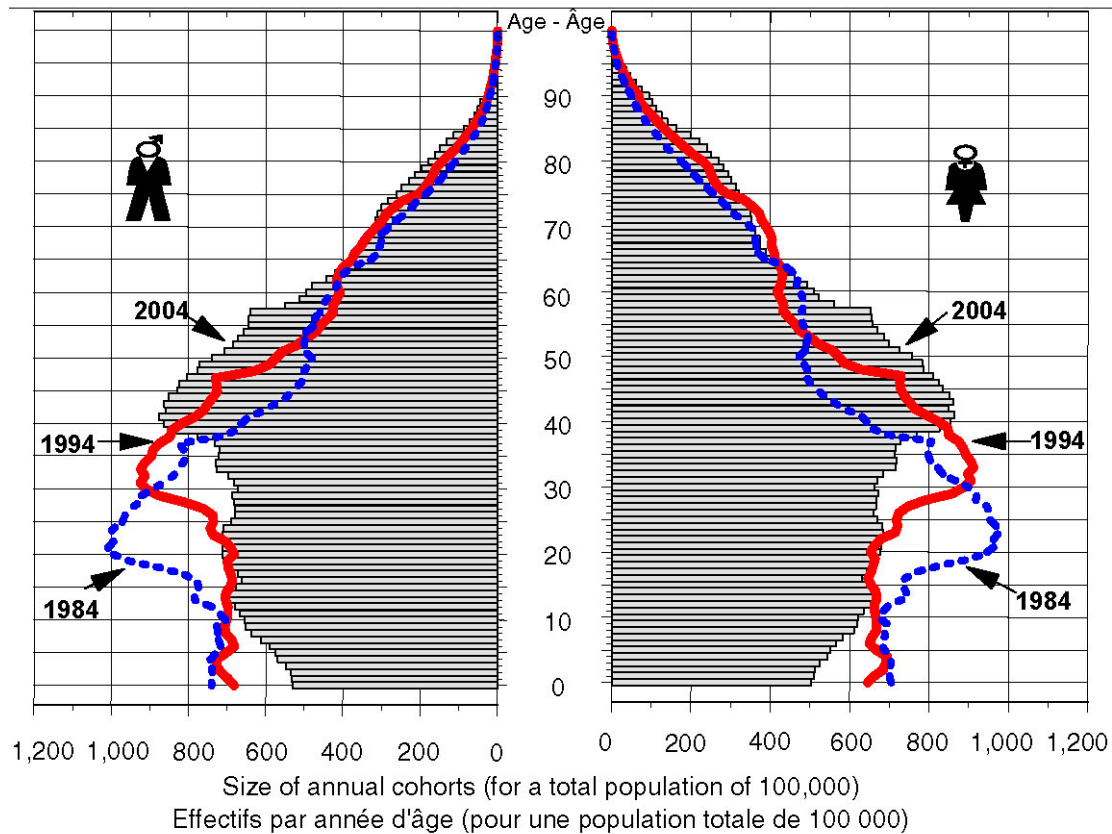
Figure 2: Fertility Rate, Canada, 1926 - 2002



Source: Statistics Canada, Canadian Vital Statistics, Birth Database, CANSIM table 102-4505; and World Bank, *World Development Indicators*, 2005.

With the exception of increased fertility rates during the post-World War II baby boom, a declining fertility rate and rising life expectancy have been reflected in Canada's demography. The number of people aged 65 and older is expected to increase from 3.9 million in 2000 to approximately 7.8 million in 2026, reaching almost 9.4 million by 2051. The fastest-growing segment of the older population will be those aged more than 80, a group that will nearly double in size between 2000 and 2026, and quadruple in size between 2000 and 2051. The proportion of elderly persons was 8% in 1971 and is 13% currently. By 2031, about 25% of Canadians will be aged 65 or older.

Figure 3: Age Pyramid of the Canadian Population for 1 July 1984, 1994 and 2004



Source: Statistics Canada, *Annual Demographic Statistics*, 2004, 2005, p. 27.

Recent population projections indicate that Canada's population will continue to grow in the foreseeable future, but the rate of growth will decline over time and may become negative. The population is projected to increase from 31 million in 2000 to approximately 36 million in 2026, peaking at just over 37 million in 2040 and then gradually declining to just below 37 million in 2051. By 2024, it is anticipated that deaths will exceed births, although immigration may sustain low levels of population growth until 2040. In the view of the Chief Actuary of Canada, after 2030, all of the projected population growth will be the result of net immigration.

Statistics Canada told the Committee that, between 1996 and 2005, the Canadian population experienced its lowest rate of growth ever recorded. Although Canada's population growth remains relatively high – significantly higher than in Japan or in many countries in Western Europe, and second among the G-8 countries – for the first time in 100 years the Canadian population growth rate was less than that of the United States. The Department also identified three reasons why the fertility rate in the United States is relatively higher:

- a high rate of adolescent births;
- U.S. women aged 20-29 years have a considerably higher fertility rate than do Canadian women; and
- the average age at which a U.S. woman has her first child is around 24-25 years, while in Canada the average is the late 20s.

The Conference Board of Canada told the Committee that, in the United States, African-Americans and immigrants of Latin American origin have higher fertility rates than the average fertility rate for citizens of the United States. Moreover, the fertility rate is higher among caucasian or non-visible minority women in the United States than is the case for Canadian women, although the differences are not as significant.

Statistics Canada also noted that since the early 1990s, international migration has been the main source of population increase in Canada. Since 2000, it has represented more than 60% of the observed population growth, and may soon account for all growth if fertility rates remain low. Immigration contributes to population growth, but has a marginal impact on population ageing.

By 2017, one in five Canadians will be a visible minority. The Committee was told that, increasingly, Canadian immigrants are from Asian and Middle Eastern countries; however, Chinese and South Asian immigrants remain the largest minority groups. Immigrants tend to settle in the three largest urban centres of Toronto, Vancouver and Montreal. In the former two cities, visible minorities comprised 37% of the population in 2001, a figure that could rise to 50% by 2017. Reasons for locating in these centres include:

- proximity to family and/or friends;
- availability of jobs;
- climate; and/or
- language.

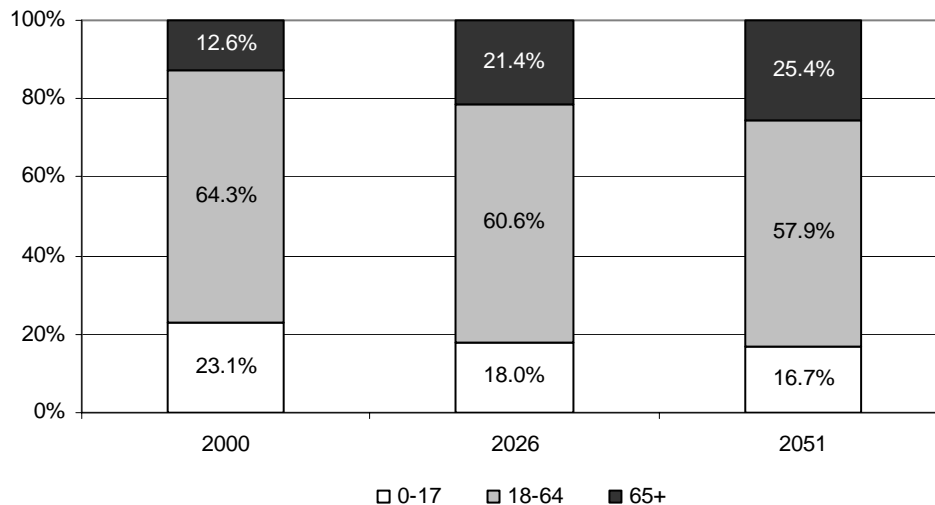
Statistics Canada also said that an increasing proportion of more recent immigrants have neither English nor French as their mother tongue. As well, they have relatively lower average weekly earnings, and rates of low income are highest among more recent immigrants. These outcomes have occurred despite higher levels of formal education. They have experienced decreases in the value of foreign labour market experience – which is especially true for older workers – and new labour market entrants as a whole have experienced difficult economic conditions and a general deterioration in outcomes.

The baby boom generation – generally thought to be Canadians born between 1946 and 1966 – is likely to be the most influential age cohort with respect to future demographic change, and the retirement of this generation will have significant labour market consequences. Today, the majority of baby boomers is of working age. Beginning in

2011, however, the baby boom generation will be reaching retirement age and, over the next two decades, successive cohorts of this generation will become aged 65 and over. The Chief Actuary of Canada indicated that, by 2030, most baby boomers will have retired.

The ageing of the baby boom generation, in conjunction with rising life expectancy, will mean that the number of seniors will grow more rapidly and that they will live longer. That being said, there are differences between the older workers of today and the older workers of tomorrow. According to Statistics Canada, the older workers of tomorrow will, on average, have more education and higher previous labour force participation rates.

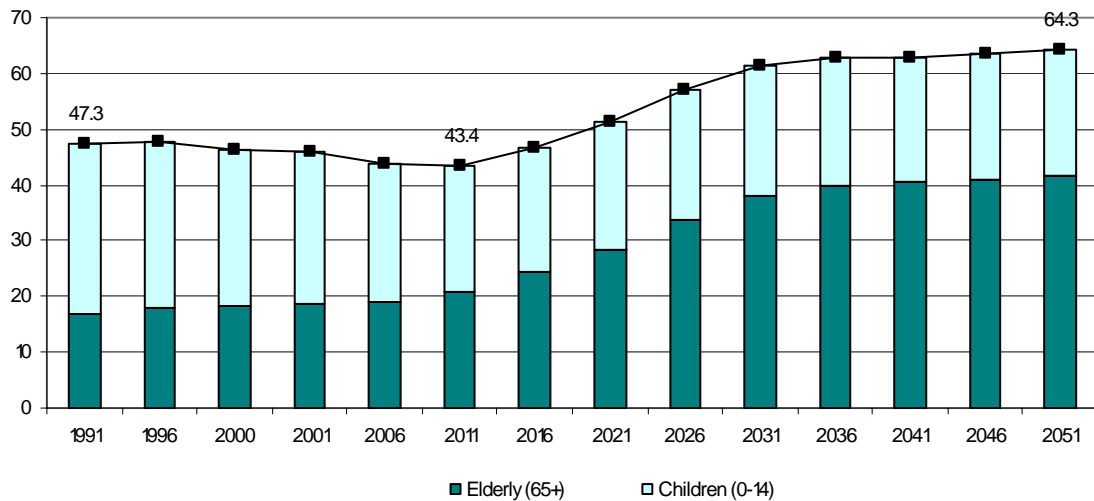
Figure 4: Projected Change in Canadian Demographics, 2026 and 2051



Source: Statistics Canada, *Population Projections for Canada, Provinces and Territories, 2000-2026*, March 2001, Table 18, p. 68.

Demographic change will affect the dependency ratio, which is defined as the proportion of children up to age 14 and elderly aged 65 and older – the non-working-age population – relative to the population aged 15 to 64 years – the working-age population. Changes in the relative size of the working-age and non-working-age populations will have implications for economic growth, federal finances and spending, and financial and labour markets, as well as for many other areas. As well, the various regions in Canada, and the urban and rural sectors, will be affected differently.

Figure 5: Dependency Ratio in Canada, 1991 - 2051



Note: The dependency ratio expresses the number of people of “dependent age” per 100 persons of “working age.” Beginning in 2001, all figures are projections.

Source: Statistics Canada, *Population Projections for Canada, Provinces and Territories, 2000-2026*, March 2001, Table 21, p. 77.

According to the Chief Actuary of Canada, the dependency ratio is expected to increase. In 2003, there were 21 retirees for every 100 persons of working age; by 2030, it is predicted that there will be 40 retirees for every 100 working-age persons. Moreover, over the 2003 to 2030 period, the number of youths is expected to fall from 40 to 37 for every 100 persons of working age. The size of the working-age population is expected to grow, except during the 2002 to 2030 period when the baby boom generation is expected to retire; the working-age population as a proportion of the total population is, however, expected to decline.

The dependency ratio is a widely used concept, although the Policy Research Initiative identified it as a “limited concept” because:

- it assumes that a constant proportion of those aged 15-64 years participate in the labour market when, in fact, the age of entry into and exit from the labour market may be later or earlier;
- it assumes that the intensity of labour force participation remains stable;
- no consideration is given to the economy’s ability to use these employees; and
- the quality or productivity of employees is not considered.

CHAPTER 3: MITIGATING THE IMPACTS OF AN AGEING CANADIAN POPULATION

Canada is in the vanguard of an unprecedented demographic phenomenon that is now spreading to every corner of the globe. In both hemispheres now, in rich countries and poor, in Christian, Taoist, Confucian, Hindu, and especially Islamic countries, there is one broad megatrend that holds constant at the beginning of the 21st century – birth rates are falling everywhere. Today, global fertility rates are only half of what they were in 1972. There is no industrial country that still produces enough children to sustain its population over time or to prevent rapid population ag(e)ing. ... [T]here are now 59 countries in the world, comprising about 44 per cent of the world's total population, that are not producing enough children to avoid population decline. (*New America Foundation*)

Demographic change and an ageing Canadian population will mean new pressures, and the Committee believes – now, more so than ever – that efforts to ensure improvements in living standards must be undertaken. In a very fundamental way, we see improved living standards occurring as a consequence of improved productivity performance. From that perspective, we are hopeful that the federal government will act quickly to implement all of the key recommendations contained in our June 2005 report.

As a complement to those recommendations, the Committee in this report makes recommendations that we feel must be implemented – on an expeditious basis – to help Canada address the challenges that lie ahead as the size of the working-age population declines relative to the size of the non-working-age population, as our population continues to age, and as we seek to maximize our growth and prosperity – for the benefit of all citizens – in light of the demographic change ahead.

The Committee feels that improvements are needed in a number of areas:

- incentives for individuals to engage in labour market activity are needed, and institutional and financial disincentives to work must be removed;
- incentives for businesses to invest in productivity-enhancing tools must be enhanced;
- the integration of immigrants into Canadian society must be facilitated;
- incentives to save must be improved;
- federal fiscal management must remain sound;
- federal financing of healthcare and public pensions must be sustainable; and
- productivity growth must be enhanced.

A. Improving Incentives/Removing Disincentives for Individuals to Work

A proposal advocated by virtually all of the Committee's witnesses was the need to improve incentives – or, at a minimum, remove disincentives – for individuals to work: to work more years, primarily, but also to work more hours. In their view, ensuring that everyone who wants to work is able to do so, and that they are able to choose the manner and level of their attachment to the labour force, are critical in mitigating the effects of an ageing population.

While many witnesses spoke about implementing measures to improve the labour force participation of older workers who choose to participate in the labour market, the Committee supports the broader view taken by some witnesses: there are a number of groups in Canadian society that have low labour force participation rates – such as persons with disabilities, Aboriginal Canadians and immigrants to Canada – and measures should be implemented to ensure that they, too, can participate in the labour market in a manner and level of their choosing. We believe, more generally, that this choice should also exist for current employees. In our view, choice is something that should be available to all citizens, since exclusion from the labour force may lead to social exclusion and an inability to ensure adequate earnings and adequate retirement income. Everyone's full labour force efforts must be accessed if Canada is to prosper.

In developing policy solutions, the factors that cause various groups of citizens to not participate in the labour market, or to participate but less than fully, should be considered. For example, disabled Canadians may lack needed workplace supports and accommodations, or – like many Aboriginal Canadians – they may have had inadequate access to the education and skills training needed for gainful employment. Women may be unable to participate in the manner and level of their choosing because needed flexibility is not available, child care options are limited or they face discrimination in employment. Similarly, persons with disabilities, Aboriginal Canadians and visible minorities may face employment-related discrimination, while seniors may suffer from ageism. Clearly, there are a wide range of reasons why citizens may not participate, or may not participate fully, in the labour market.

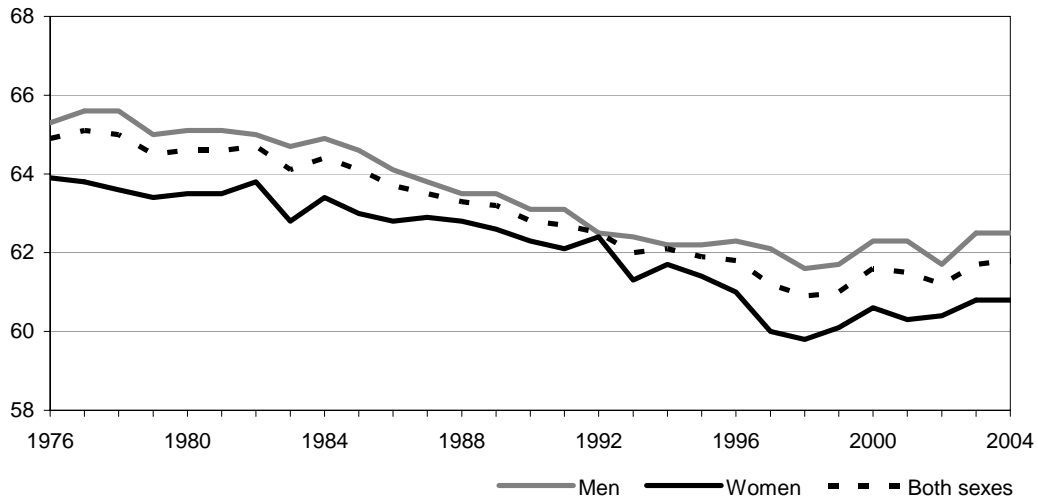
The majority opinion of witnesses was that efforts must be made to enhance the labour force participation options available to seniors and to those approaching retirement age. In understanding why seniors may not participate in the labour market, the factors that influence their decision to retire should be considered. The Policy Research Initiative identified a number of factors:

- reductions in Old Age Security/Guaranteed Income Supplement payments when income is earned;
- retirement of the senior's spouse;

- a lack of required skills;
- illness and/or disability;
- rigidities in collective agreements;
- strong retirement incentives in private pension plans;
- unsuitable work environments;
- lack of flexibility in work arrangements;
- age discrimination;
- lack of training programs for older workers;
- mandatory retirement provisions;
- high effective tax rates when working and receiving pension income; and
- early retirement incentives in the Canada Pension Plan.

According to the Organisation for Economic Co-operation and Development, “if participation rates among older workers alone can be raised gradually to the maximum OECD level in 2000 by 2030, the labour force in 2050 would be greater than 3 million individuals and, as a result, would mirror closely historical growth.” The Organization also noted, however, that “older workers in Canada continue to face significant employment barriers” While the Committee certainly agrees that the employment barriers faced by older workers must be removed, we believe that the solutions must be applied more broadly in order that no citizen faces employment barriers.

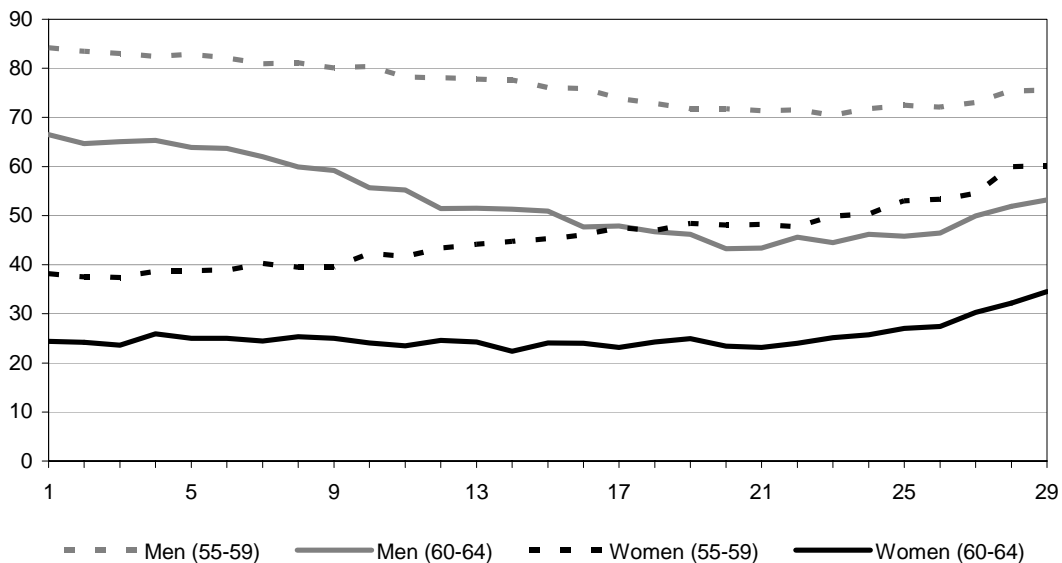
Figure 6: Average Age of Retirement in Canada, by Gender, 1976 - 2004



Source: Statistics Canada, Labour Force Survey, CANSIM table 282-0051.

In the view of the Organisation for Economic Co-operation and Development, “giving people more opportunities to stay in work longer could prevent significant decline in the labour force over the coming decades. ... I think the challenge for governments, employers and unions is to provide the right conditions for people to extend their working lives.” The Organization also cautioned, however, that “[t]here is a risk that too much flexibility may reduce total labour supply, and we need to be careful about that.”

Figure 7: Labour Force Participation Rate, by Gender, Older Workers, 1976 - 2004



Source: Statistics Canada, Labour Force Survey, CANSIM table 282-0002.

1. Actions by Individuals

Individuals are more likely to work, or to look for work, when they have the education, skills and experiences that are required by employers. From that perspective, it is important that all citizens – but perhaps more importantly older workers who may not have engaged in lifelong learning, and persons with disabilities, Aboriginal Canadians and immigrants who may face educational barriers – be provided with access to, and incentives to undertake, education and skills development to enhance their quality of life and their employability.

Individuals are more likely to pursue education and training when they are adequately rewarded for this investment of time and money. In the future, labour shortages may result in higher levels of compensation, which means that employees will enjoy higher returns from their work and, thereby, a higher return on their investments in education and training.

As well, individuals are more likely to work when they are healthy. Consequently, it is important that all workers – including older workers – access quality healthcare in a timely manner in order that an illness does not result in a health condition that diminishes their quality of life and that could require them to leave the labour force. More particularly, disabled Canadians – who may have medical challenges – and Aboriginal Canadians – who may have limited access to healthcare – must be provided with sufficient supports and assistance to access the healthcare required for optimum health.

Moreover, individuals are more likely to work when the compensation they receive from work is sufficient. In addition to the link between education and training and income, the net compensation received from work is affected by the personal income tax system. Consequently, tax changes that increase the net compensation of employees generally would result in increased labour-market activity, since leisure – or non-labour-market activity – would be more costly.

Although increased work may result in less time being available for volunteer activities, the C.D. Howe Institute told the Committee that “volunteer activity and participation in the workforce do tend to go together to some extent. People who are active in one area tend to be active in others.”

Higher compensation for employees may lead to more productive workers. Better-compensated employees may be more motivated and, hence, more productive. As well, when labour is relatively more expensive, employers have an incentive to increase productivity through providing workers with more capital equipment and through increasing the pace of work. They also have an incentive, however, to replace relatively more costly labour with relatively less costly capital equipment.

Dr. Henripin, on the other hand, mentioned the potential for lower wages to be paid to older workers if their productivity declines with age. He said that “if employers are reluctant to retain older workers and to hire new ones, it is because they do not see the advantages. Employers would see certain advantages if they paid less. We are stuck with pay scales that never decrease in keeping with the reduction in productivity of workers as they age [I]f performance is lower due to age, people should not be sent home, but instead paid less.”

In support of the ability of older employees to choose to work beyond the conventional age of retirement, the C.D. Howe Institute and the Conference Board of Canada agreed that older workers and younger workers are complementary at the workplace. The latter stated that “the mix of older and younger workers is by far the most productive mix.”

2. Actions by Businesses

Businesses could also – unilaterally or collectively with organized labour, as the case may be – provide incentives and remove disincentives to labour market participation.

The Conference Board of Canada said that “[o]rganizational policies and practices that were designed for an era of labour surplus must be adapted to the needs of an older workforce. Initiatives include programs that target older talent and that provide work flexibility, training and professional development.” More generally, policies and practices designed for an era of labour surplus must be realigned to recognize the realities of labour shortages.

Consequently, organizations – in conjunction with organized labour, if appropriate – could:

- eliminate mandatory retirement practices and ageism or other forms of discrimination that exist in the workplace;
- make workplace accommodations – including job design, workplace design and the provision of assistive equipment – that would enable the full participation of older workers and disabled Canadians;
- enable flexibility, including flex-time as well as part-time and/or part-year work;
- facilitate improved knowledge of health, wellness and safety issues;
- enable phased retirement;
- once required changes are made to the *Income Tax Act*, ensure that registered pension plans allow employees to receive employment and pension income simultaneously, and to accrue pension credits based on their current employment; and
- implement measures that would enable employees to achieve a work-life balance.

Future demographic concerns specific to succession planning among small and medium-sized businesses (SMEs) were highlighted by the Canadian Federation of Independent

Business. The organization told the Committee that four out of ten Canadian small business owners will retire within the next five years, and seven out of ten will retire within the next decade. We were also informed that almost 58% of heads of SMEs anticipate retiring in two years but have not yet identified a successor, and two-thirds have not started to plan for their future succession. In the organization's view, "[w]ithout preparation, a small business owner will tend to sell at a discount to competitors, ... with the associated risk of business closure." Consequently, there may be as many as two million jobs at risk.

The Canadian Federation of Independent Business shared six recommendations for facilitating the succession process for small and medium-sized enterprises:

- awareness;
- a national conference on SME succession issues;
- an increase in the lifetime capital gains exemption for farm property and small business shares to the successor;
- an ability to defer taxes on capital gains from the transfer of the business to the owner's children;
- government programs and intervention through agencies; and
- through the federal economic development agencies, measures to foster and encourage the development of an entrepreneurship culture in partnership with existing entities involved in mentoring students and developing educational activities.

3. Actions by the Federal Government

In addition to action in the areas mentioned above – including education and skills development, access to quality healthcare and personal tax changes – the federal government could also reduce the disincentives to work in public and private pension plans. Removal of these disincentives was advocated by a number of the Committee's witnesses, who supported the ability of workers to combine employment income with pension income and to be able to continue to work without a penalty being applied to their pension.

Witnesses identified the work disincentive effects within the Old Age Security/Guaranteed Income Supplement/Spouses Allowance (OAS/GIS/SA) program, and focused in particular on such issues as the clawback that occurs with the GIS in the presence of earned income and the incentive provided by the Spouses Allowance to abstain from paid work.

The Policy Research Initiative said that "we should ... consider changing the income security and (G)uaranteed (I)ncome (S)upplement programs so that those who wish to retire at age 65 can continue to work without being penalized, by making actuarial adjustments, for example." The organization also mentioned an earnings exemption to

allow some level of labour market earnings without having the value of the Supplement reduced. The C.D. Howe Institute wondered why the Old Age Security and Guaranteed Income Supplement programs do not have actuarial adjustments for those who delay receipt of these benefits.

The Conference Board, in speaking about the Spouses Allowance available to eligible low-income Canadians aged 60 and over, suggested that “by permitting spouses to access this income support at the age of 60, the allowance is a de facto early retirement scheme, especially among older women.”

Regarding the Canada Pension Plan, witnesses commented on the work cessation provision, the inability to accumulate credits after age 65, and the imbalance in the actuarial adjustments that are made when the retiree begins to receive benefits either before or after age 65.

The Chief Actuary of Canada noted that the current actuarial adjustments within the Canada Pension Plan “are too generous for those who elect to take their benefit before age 65, and that conversely, benefit uptake after age 65 is penalized.” Dr. Brown also noted the Plan’s bias toward early retirement.

The Chief Actuary also suggested that policy makers may wish to consider whether the Canada Pension Plan is “sufficiently accommodating of the more varied transition to retirement and career paths that are becoming increasingly common. Allowing people to take their CPP pension and continue to accrue additional CPP pension benefits may merit consideration. It would ... require that working pensioners contribute to the plan, which is currently not the case in the CPP.” The Chief Actuary advocated the removal of “all disincentives in the (retirement income) system to work later, whether they are in the Canada Pension Plan, the private pension plans or the Income Tax Act.” Finally, the Conference Board of Canada questioned why the Canada Pension Plan permits retirement at age 60.

Witnesses also commented on restrictions in the *Income Tax Act* related to registered pension plans. Many thought that individuals should be able to accrue pension credits and receive pension benefits simultaneously from the same defined benefit plan or the defined benefit plan of a related employer. The Policy Research Initiative told the Committee that “[o]ne of the well-known disincentives is a provision of the Income Tax Act that says for registered pension plans you cannot continue to work, take your pension and contribute to building up more pension benefits at the same time. ... (In some cases, if you work part-time), your wages go down and the calculation of your pension goes down. There is a disincentive to phase into retirement rather than just to move out altogether.”

Dr. Brown also identified this *Income Tax Act* provision as a possible disincentive: “In the private sector, it is difficult ... to get wage-earning income from the same corporate cheque-writing machine that provides (the) pension on the same day. There are income

tax rules about that. (A person has) to be retired or not. That does not incent flexible retirement.”

Regarding the incentives provided by tax-assisted savings plans more generally, the Organisation for Economic Co-operation and Development said that evaluating and monitoring their impact on retirement decisions is important, since plan participants may save to the point that they retire early.

Witnesses also commented on mandatory retirement, which may occur implicitly through an absence of protection against age-based discrimination beyond some age, or through workplace policies or collective agreement provisions. In describing mandatory retirement as an anachronism, the Conference Board of Canada said that “Canadian governments should aggressively remove the legislative and structural barriers to those who choose to work beyond age 65.” At the same time, some witnesses commented that the *bona fide* occupational requirement/qualification must continue to exist for those instances where there is a legitimate reason to exclude workers from employment beyond some age. The Policy Research Initiative, for example, said that “we should ... consider eliminating compulsory retirement at age 65, except in cases where the working conditions would dictate a cut-off age.”

In the view of Dr. Brown, however, the time spent discussing mandatory retirement at age 65 is “a bit of a tempest in a teapot. Changing mandatory retirement will have an impact of approximately 0.5 per cent on the labour force participation rate. We need to get people to work longer, not until age 65-66, but rather until age 61.5-62.5.” Dr. Henripin recommended an increase in the age of retirement.

Witnesses also spoke about federal actions with respect to older workers and to address anticipated skills needs. For example, the Committee was told about the Workplace Skills Strategy, which brings together stakeholders with the intention of developing a strategic plan that includes initiatives to address future skills requirements. We are also aware of the sector councils that bring together stakeholders in an effort to analyze and address sector-wide human resource issues; presumably, labour shortages would be one item that would be addressed.

The Organisation for Economic Co-operation and Development provided information on federal initiatives to assist certain workers, and highlighted:

- the Older Workers Pilot Projects Initiative to assist displaced older workers into employment or to maintain in employment those at risk of losing their job;
- Employment Benefits and Support Measures programming under the *Employment Insurance Act*; and
- the Opportunities Fund, through which unemployed Canadians with disabilities aged 50 and over may receive employment assistance.

The Organisation for Economic Co-operation and Development also identified a specific federal role in training for older workers and a more general role for all workers. In particular, the Organization advocated greater assistance to older, unemployed workers looking for employment, and supported the extension of eligibility for Employment Insurance support programs to everyone – at least on a trial basis – regardless of their employment history or receipt of Employment Insurance benefits. Other witnesses also identified the need to adapt employment services to the needs of older jobseekers, and some suggested that assistance should be given to assist older workers wishing to pursue self-employment.

Although not mentioned specifically within the context of governmental action, the Organisation for Economic Co-operation and Development said that “in Canada there are some rather generous support measures for women to leave the labour market, and then to return. There is a lot of flexibility in the Canadian labour market compared to other countries, although perhaps not as much as in the United States.” Regarding female employment, the Policy Research Initiative said that “flexibility around the availability of child care ... would seem to be a policy intervention that would result in increased labour supply.”

More general actions that could be taken to bring about increased labour supply and more family-friendly workplaces were also discussed. Among these were part-time work and other forms of flexibility. Although not mentioned specifically by witnesses, one means by which flexibility might occur is through legislated employment standards. For example, legislated provisions allowing part-time or part-year work – particularly if this option is accompanied by pro-rated benefits – could lead to an increase in the labour supply, and phased retirement might also be possible.

The Canadian Federation of Independent Business identified the need for a progressive-retirement incentive, and suggested that “[p]eople who are over 60 years who want to carry on working would probably want to work three days a week and receive a partial pension for the two days they are not working in order to augment the salary they received from their employer. Our current system does not permit that. ... Obviously that needs to change.” While this pension-related issue was mentioned earlier as a disincentive to work, incentives for phased retirement are possible.

4. Recommendations of the Committee

In the Committee’s June 2005 report, we advocated measures to encourage individuals to engage in labour market activity, to invest, and to engage in lifelong learning and skills development. We believe that, recognizing the labour shortages that might occur with population ageing, workers should have incentives to remain in the labour market and to increase the nature and level of their labour market activity, if they so choose. At a minimum, any disincentives should be removed. Since labour shortages are expected – at least for some regions and for some skills – we also feel that an area for further

consideration is the extent to which employers might outsource their lower-value tasks as a means of addressing, in part, their labour shortages.

While we recognize that the labour force participation rate of older workers has increased over time as relatively more older workers are educated, healthy and want to work, and that their rate of participation in the labour force is now ten percentage points higher than it was a decade ago, the Committee believes that the proper incentives would increase their labour force participation even further. We also feel that there is scope to increase the labour force participation of other groups of citizens, including persons with disabilities, Aboriginal Canadians, immigrants to Canada and low-income Canadians.

The Committee supports the announcement in *The Budget Plan 2006* that the federal government – in partnership with the provinces/territories – will conduct “a feasibility study to evaluate current and potential measures to address the challenges faced by displaced older workers, including the need for improved training” In our view, government efforts should be directed toward enhancing the labour force participation rate of a range of citizens.

As we did in our June 2005 report, the Committee continues to support changes to the personal income tax system that would give Canadians higher levels of disposable income. Such changes would increase the returns from work – rather than leisure – activities, and would give employees increased income that could be spent on education and training throughout their lifetime in order that they may be more productive workers.

As well, changes to the personal income tax system could be a tool to combat the brain drain, which also reduces the availability of labour, and to attract and retain employees from other countries who might have different and – perhaps – more innovative methods. Of course, the Committee also continues to support measures that would give businesses an incentive to provide their employees with the equipment and technological innovations that would maximize their productivity. We believe that lower personal income taxes are an important tool that should be used by the federal government to increase the returns to paid employment and, thereby, provide an enhanced incentive to work.

The Committee is aware of the proposed changes in *The Budget Plan 2006*. Anticipated changes include a reduction in the lowest personal income tax rate, an increase in the basic personal amount, and the development and implementation of the Canada Employment Credit. As well, the federal government has announced its intention, in consultation with the provinces/territories, to identify “potential measures to improve incentives to work for low-income Canadians, including through an earned income tax credit such as a (Working Income Tax Benefit).” We support these measures, which should improve the incentive to work.

The Committee believes that while the proposed measures are helpful, they do not go far enough in all cases. We are particularly concerned that the proposed personal tax reduction would affect only the lowest rate, and urge the federal government to begin consultations with the provinces/territories as soon as possible, since we believe that improved work incentives for low-income Canadians must be a priority. In continued support of the recommendation in our June 2005 report, the Committee recommends that:

- 1. The federal government amend the *Income Tax Act* to reduce personal income tax rates and to increase the thresholds at which these rates are paid. In particular, these rates and thresholds should provide incentives to work and to remain employed within Canada.**

The Committee also believes that individuals have more employment options, and often can engage in more interesting work, if they have a broad range of skills. We feel that while the federal government currently has a number of initiatives designed to promote lifelong learning – including the ability to withdraw Registered Retirement Savings Plan funds for lifelong learning and the tuition and education tax credit – more must be done to ensure that all citizens have the appropriate incentives to engage in the lifelong learning that will improve their contribution to the labour force and their – and the nation’s – standard of living. While *The Budget Plan 2006* announcements regarding the textbook tax credit, the tax exemption for scholarship and bursary income, investments in educational infrastructure and improvements to the Canada Student Loans Program are welcome, we believe that there is an urgent need to examine whether all components of federal support for education and training are working well together and are having the best possible results. For this reason, the Committee recommends that:

- 2. The federal government review current initiatives to encourage lifelong learning, with a view to determining their effectiveness. The government should also explore additional tax and non-tax incentives for employees and employers that might be implemented to enhance this learning.**

The review, and any consequential changes or new measures that are required to ensure lifelong learning, should occur no later than 31 March 2007.

Moreover, the Committee feels that legislated standards in such areas as human rights and employment standards have a role to play in protecting and assisting individuals who wish to remain in the labour force beyond what is considered to be the normal retirement age, as well as others who wish to work. We are aware that, under the *Canadian Human Rights Act*, it is not a discriminatory practice to terminate an individual’s employment because he or she has reached the normal age of retirement for employees working in similar positions. In this sense, mandatory retirement is permitted.

The Committee believes that protection against age discrimination should extend beyond age 65, that provisions protecting against all types of prohibited discrimination must be

enforced, and that employment standards legislation should perhaps provide minimum standards for benefits for part-time and part-year workers, as well as other provisions that would enable workforce flexibility, such as elder care and flexible working hours. We also believe that collective agreements and pension plan provisions should be examined with a view to ensuring that they do not contain disincentives to employment beyond what is considered to be the normal age for retirement.

The Committee recognizes that the federal jurisdiction with respect to employment and labour relations is limited to about 10% of the Canadian workforce, and that provincial/territorial governments differ in their legislated provisions in these areas. Consequently, if beneficial changes are made, we urge provincial/territorial governments to amend their legislation to have similar effect. Demographic change will affect the entire nation, and workers in all jurisdictions should have an incentive to maintain their labour force attachment. From this perspective, the Committee recommends that:

- 3. The federal government amend the *Canadian Human Rights Act* to provide that terminating an individual's employment because he or she has reached the normal age of retirement for employees working in similar positions would constitute a discriminatory practice.**

As well, the government should ensure that the *Canadian Human Rights Act* continue to protect persons against employment-related discrimination, particularly based on gender and age.

Moreover, the government should, during its next meeting with stakeholders regarding Part III of the *Canada Labour Code*, explore the types of amendments that would be needed to provide employees with the flexibility that could ensure their continued, if not enhanced, participation in the labour market. The focus should be changes – such as pro-rated benefits for part-time workers, elder care and flexible working hours – that would enhance the labour force participation of older persons as well as other workers, including women.

Like our witnesses, the Committee believes that the current structure of some private and public pension plans could include disincentives to work beyond the normal age of retirement. Given the potential labour shortages that may occur in the future, and the consequent need by some employers for skilled and experienced employees, not only should these disincentives not exist, but proactive measures might be taken to provide an incentive to combine work and retirement beyond age 65.

While Parliament has exclusive legislative jurisdiction over such pension plans as Old Age Security, it shares jurisdiction with the provinces/territories with respect to the Canada Pension Plan. Moreover, its jurisdiction with respect to private pension plans is limited to plans that are subject to the provisions of the federal *Pension Benefits Standards Act, 1985*, although the *Income Tax Act* contains requirements that must be

met by all registered pension plans. Consequently, if beneficial changes were made to the *Pension Benefits Standards Act, 1985*, the Committee would – again – urge provincial/territorial governments to adopt similar provisions. Similarly, if beneficial changes were made to the Canada Pension Plan, we would advocate similar changes to the Québec Pension Plan. It is from this perspective that the Committee recommends that:

4. The federal government amend the *Old Age Security Act* to:

- **allow receipt of Old Age Security benefits to be deferred, with appropriate actuarial adjustments;**
- **exempt a portion of employment earnings from the clawback provision associated with the Guaranteed Income Supplement program; and**
- **ensure that the amount and timing of the Spouses Allowance does not represent a disincentive to the labour force participation of recipients.**

Moreover, the Minister of Finance should, at the next meeting with provincial/territorial Ministers responsible for the Canada Pension Plan, pursue the following changes to the Plan:

- **remove the requirement that individuals must cease to be employed before beginning to receive retirement benefits;**
- **amend the actuarial adjustment that occurs when retirement benefits are received earlier than age 65 by increasing the adjustment to 8% per year; and**
- **permit pension credits to continue to be accumulated on the basis of employment earnings after age 65.**

Finally, the government should amend the *Income Tax Act* to permit registered pension plans to make pension payments to individuals currently earning employment income from the employer that is the plan sponsor or from a related employer. These plans should also allow employees to accrue pension credits on the basis of their employment.

As well, and consistent with our earlier thoughts, the Committee believes that an important tool for mitigating the effects of demographic change is a highly skilled and highly productive workforce. In this regard, it is critical that the federal government ensure high levels of literacy and numeracy in order that individuals not be limited in their workplace contributions. While we recognize the efforts of the National Literacy Secretariat, we feel that priority action is required. Governments must act expeditiously to ensure that Canadians have the literacy and numeracy skills required to function in the society of today. The need to ensure that adequate support exists is particularly acute in light of recently released Statistic Canada information about adult literacy and numeracy skills in Canada.

B. Improving Incentives for Employers to Invest in Productivity-Enhancing Tools

Measures must be undertaken to ensure that people have incentives to work: to enter the labour force, to commit an appropriate number of hours once there, and to remain in the labour force as long as suitable and/or desirable given their particular circumstances. The recommendations made above are directed largely at ensuring that individuals are supported in their decision to engage in labour market activity, whether through the introduction of incentives or the removal of disincentives to work. Certainly, having more people at work – and, perhaps, people at work for longer hours – may help employers to meet their need for employees and may contribute to enhanced productivity.

Actions must also, however, be taken to ensure that employers have incentives to invest in capital equipment, to undertake research and development, to implement technological innovations and to upgrade the skills of their employees. These actions are needed to ensure that once individuals decide to enter the labour force, they have the tools they need to maximize their contribution.

As noted by the Policy Research Initiative, “[w]ith a declining relative supply of labour, there is more capital available per worker to invest and we can expect some increase in productivity.” The Committee believes, however, that the recommendations we make in this report will increase the supply of labour, and that employers – consequently – must increase the quantity and quality of equipment provided to employees.

The New America Foundation indicated that while technological innovation is important, it has limitations. The organization remarked that “[t]echnology may help to ameliorate the burden of fewer workers becoming responsible for more retirees. But boosting efficiency through automation is difficult in the service sector, and especially in healthcare, which in the future will account for a larger and larger share of Gross Domestic Product.”

The Committee agrees that automation has limited application in such sectors as the services sector and, for this reason, is hopeful that labour shortages in key sectors – including healthcare – are addressed through such mechanisms as sector councils. We believe that human resource planning in the health sectors is especially important in light of the comment made to us by the C.D. Howe Institute. Improved health outcomes for workers, including and perhaps especially seniors, will become a priority at the same time that, according to the Institute, “a tremendous amount of human capital is leaving the health ... sectors.”

As noted in our June 2005 report and a number of our other reports in recent years, the Committee continues to support a reduced corporate tax burden – the general corporate tax rate, capital taxes and the corporate surtax – and capital cost allowances rates that are,

at a minimum, aligned with the useful life of assets. In our view, these types of tax changes would result in an environment in which employees have the most productivity-enhancing tools available to help them in their work. In this regard, we support the proposed changes to corporate taxation announced in *The Budget Plan 2006*.

The Committee also believes, however, that a reduced corporate tax burden – while necessary – is not sufficient. We feel that tax measures to encourage employers to assist their employees in lifelong learning activities, and to undertake research and development, are key. While some measures currently exist, and would be augmented in accordance with the research and development proposals announced in *The Budget Plan 2006*, it is not entirely clear to us that existing measures are having the desired effect; they must be changed if they are not meeting intended goals. As well, new measures that are required to meet these goals must be implemented.

Notwithstanding any legislative provisions regarding discrimination and flexibility in the workplace, the Committee believes that employers should ensure that their workplaces support work. Thus, we feel that employers must consider measures that would allow part-time or part-year work as well as other job-sharing arrangements, and measures that would allow employees to enter retirement progressively and/or to combine retirement with work if they wish.

The Committee believes that – notwithstanding the changes announced in *The Budget Plan 2006* – corporate taxation and such other issues as capital cost allowance rates require additional changes. We feel that employers must be encouraged to purchase the best possible tools and equipment for their employees, in order that these employees are as productive as possible. In our view, capital cost allowance rates are an important means by which the federal government can encourage such purchases. We believe that the entire structure of capital cost allowance rates must be reviewed, with appropriate changes made. The current system, whereby changes are periodically made for some asset classes, falls short of our goal in this area. For this reason, and consistent with the recommendation made in our June 2005 report, the Committee recommends that:

- 5. The federal government amend the Regulations to the *Income Tax Act* to ensure that capital cost allowance rates are consistent with the useful life of assets, if not accelerated.**

C. Improving the Settlement and Integration of Immigrants to Canada

Earlier, the importance of immigration to Canada's population growth was highlighted. According to Statistics Canada, "socio-economic integration of immigrants will represent a major challenge ... [T]he rate of low income is higher among recent immigrants. There is also evidence of deterioration in the economic conditions of immigrants. This has occurred even though they have higher educational qualifications compared to those born in Canada."

Similarly, in commenting on how quickly immigrants and immigrant families adapt to – and become involved in – the economy, the Policy Research Initiative told the Committee that “over the last 10-15 years it has been a much more difficult process for many immigrants.”

Since most immigrants tend to settle in Toronto, Vancouver and Montreal, increased immigration has clear implications for these cities in terms of settlement and integration. There are also, however, implications for other regions of Canada, which do not appear to be preferred locations for immigrants but that need them in order to address labour shortages and, in some cases, depopulation.

Statistics Canada informed the Committee that “the non-core regions, the small towns, will not benefit from immigration in the future ... nor will they benefit from internal migration since, for some time now, they have been on the losing end of internal population movement. It will be difficult for these regions to renew their labour force.” Similarly, in reference to immigrants, the Canadian Federation of Independent Business said that “[w]e must integrate them – not just in the large urban centres but in the regions of Canada”

A number of witnesses indicated that immigration will not solve all of the challenges that are likely to be experienced with demographic change in Canada. In advocating a focus on changes to the tax system and other transfers in a manner that is more family-friendly, the C.D. Howe Institute said that “[i]n the end, you simply will not solve this problem with immigration.” The Organisation for Economic Co-operation and Development commented that “immigration in the Canadian context should be seen as playing a complementary role” to other measures and, according to Dr. Brown, “[i]mmigration is a partial solution but it is not the total answer.”

Similarly, the New America Foundation remarked that “[i]mmigration is vital to Canada’s future but it is not a panacea for Canada’s population problem [F]ertility rates are plunging throughout the developing world so that the supply of potential immigrants to Canada will be more constrained than in the past. ... [C]ompetition from other ag(e)ing societies for those immigrants is likely to increase. ... [I]mmigrants typically arrive on these shores not as infants but as adults (... which means that) immigrants will do far less to rejuvenate Canada’s population than will an increase in the birth rate. [I]mmigrants are having fewer children than in the past (and among those) who have lived in Canada for more than 10 to 14 years, the average fertility rate is 1.5, the same as the national average.”

Some witnesses commented that, in the future, Canada will be competing with other countries for immigrants, and a number of the countries from which people currently emigrate to Canada are also experiencing demographic change. The Conference Board of Canada remarked that “[t]here is competition for immigration and that competition will

heat up. It will become more difficult for Canada to attract immigrants in the next 10-20 years. The population of China, our main source of immigrants, is ag(e)ing ... and the birth rate in India is dropping. Europe is no longer a source of much immigration for Canada.” Dr. Brown also noted that Canada will have to compete for immigrants.

The Committee agrees with our witnesses: immigration is a partial – yet vital – tool in addressing the effects of the demographic challenge that lies ahead. We also agree that, in the future, Canada will increasingly compete with other countries for what is likely to be a declining number of qualified immigrants. In our view, these factors highlight the importance of ensuring that Canada is viewed as a highly desirable location. In addition to the comments made earlier with respect to discrimination as well as access to education and training, we believe that other actions are needed to ensure that people wish to come to Canada and that, once here, they are provided with the tools they need to prosper in their new country.

In order for immigrants to integrate easily and fully into Canada’s way of life and economy, assistance may be needed: settlement and integration services; language training; and recognition of foreign credentials. In the Committee’s view, it is also important that immigrants settle in all regions of Canada – not just in the three largest urban centres – both because all regions of Canada have much to offer immigrants and immigrants have much to contribute to all regions, and because regions other than Toronto, Vancouver and Montreal are likely to have labour shortages that, to some extent, could be mitigated by immigration.

While the Committee is aware of the federal government’s March 2005 launch of the “A Canada For All: Canada’s Action Plan Against Racism,” and of the details contained therein, we believe that more must be done. We must attract the immigrants we need, and support them – as well as employ them fully – once they are here. While we believe that the measures proposed in *The Budget Plan 2006* – specifically funding for settlement and integration programs as well as the agency for assessment and recognition of foreign credentials – are critically important, we believe that firm deadlines for these actions are needed. Moreover, given the importance of immigration in ensuring that our future needs are met, sufficient resources must be committed to settlement and integration programs, and adequate efforts must be made in the area of foreign credentials. From this perspective, the Committee recommends that:

- 6. The federal government invite provincial/territorial governments, as required, to meet no later than 31 March 2007 in order to develop a plan:**
 - **to ensure that appropriate, properly funded and equitable immigrant settlement and integration services are available throughout Canada, noting the announcements contained in *The Budget Plan 2006*;**
 - **to provide immigrants with appropriate incentives to settle in communities throughout Canada and outside major urban centres;**

- **to increase the attractiveness of Canada to qualified immigrants; and**
- **with the agency for assessment and recognition of foreign credentials announced in *The Budget Plan 2006*, to recognize and reconcile the educational and professional credentials of immigrants obtained in countries other than Canada.**

This plan should be made public no later than 1 September 2007.

D. Improving Incentives to Save

High levels of saving can either increase or decrease labour force participation. On the one hand, there is the perspective provided by the Policy Research Initiative: “I think that the baby boomers are approaching retirement with good savings, based on good incomes. The incentive to keep working, if your income is high, is fairly high.”

If income is high, then the returns from work are high and workers are better able to afford contributions to Registered Retirement Savings Plans, for example. As well, with a high income, leisure is more costly, which increases the incentive to continue paid employment.

On the other hand, high levels of savings – enabled, for example, by high income – may result in a reduced labour force participation, since retirement may be more affordable the higher is the level of past savings. This outcome may be particularly likely if the benefits provided by public pensions are considered.

That being said, Statistics Canada told the Committee that almost one-third of the 45-59 age group feels that they have inadequate financial preparations to maintain their standard of living after leaving their job.

Pension saving is, according to the C.D. Howe Institute, “very important to the overall build-up of national wealth. Certainly, the tax laws could be more favourable towards private sector saving.” The Institute also told the Committee that “the more work and the more savings we have, the more choices we will have.”

The Chief Actuary of Canada supported the current retirement income system in Canada, and remarked that it “includes diversification of sources of income ... from both private and public pensions. ... The system also provides for diversification of funding approaches. A mix of full funding, through an employer pension plan or registered retirement savings plan, partial funding through the Canada Pension Plan and the Quebec Pension Plan, and pay as you go funding by means of the Old Age Security pension is well recognized for its capacity to adapt rapidly to changing conditions, including the ag(e)ing of the population.” Dr. Brown also commented favourably on the current system, indicating that he “like(s) to see a multifaceted system of retirement income security. ... It is a nice mixed system.”

The Committee believes that savings by individuals are important to the health and prosperity of the nation. While we recognize the tax incentives that exist for personal retirement saving – for example, in registered pension plans and in such vehicles as Registered Retirement Savings Plans – we feel that changes are needed to induce higher levels of savings. This view is held despite retirement contribution limit increases contained in the 2005 federal budget.

The Committee feels that higher levels of savings are needed from a variety of perspectives. For example, if efforts to expand the size of the labour force through immigration and increased labour force participation rates are unsuccessful, the result may be lower levels of national savings in the absence of improved incentives to save. As well, the extent to which people rely on OAS and GIS benefits may be reduced if people save more for retirement. Moreover, and perhaps most generally, higher savings usually provide individuals with greater options. For this reason, and in addition to the recommendation above regarding *Income Tax Act* changes with respect to registered pension plans, the Committee recommends that:

- 7. The federal government amend the *Income Tax Act* to increase the contribution limit to Registered Retirement Savings Plans to \$27,000 by 2012. Consequential amendments should also be made regarding registered pension plans. Thereafter, the limit should be increased in accordance with changes in the average wage in Canada.**

E. Improving Federal Fiscal Management

In speaking about the policy implications of population ageing, the Department of Finance told the Committee that “[w]e must try to reduce the debt burden as much as possible to create fiscal room” to address the pressures created by ageing. The Department noted that “if we do not create the necessary fiscal space, if we want to account for financial pressures in healthcare or publicly funded pensions, this may mean two things: increasing taxes or a downward pressure on other expenditures.”

According to the New America Foundation, a societal consequence of population ageing is that “the elderly pay fewer taxes than the younger people they are replacing ... (and) ... they consume more government resources per person ... especially for healthcare.” That being said, it is important to recognize that the seniors of the future are expected to be relatively wealthier. Consequently, they may be paying more taxes and may be less likely to access such government programs as the Guaranteed Income Supplement.

The Committee believes, nevertheless, that sound fiscal management must continue to be a priority for the federal government. We recognize the commitments to annual debt reduction and the medium-term objective of a federal net debt-to-GDP ratio of 25% by 2013-2014 that were announced in *The Budget Plan 2006*. We support efforts to balance

the budget, reduce the net debt-to-GDP ratio and focus spending on the priorities of Canadians. As well, we recognize the sacrifices that were made by Canadians in order to secure a fiscal position that is the envy of the G-8 countries.

In the Committee's view, sound fiscal management, with budgets that are at least balanced and a net debt-to-GDP ratio that is declining, result in lower debt servicing costs. Thus, funds are available for such priorities as age-related spending, which is likely to be an increasingly important expenditure in the coming years. We support the announced goal of a declining net debt-to-GDP ratio, but feel that the goal is perhaps not sufficiently ambitious. As well, ensuring that federal budgets are at least balanced provides the federal government with options, including the ability to spend – when needed – in such areas as healthcare and pension benefits. Moreover, ensuring that taxpayer dollars are committed to the priorities of Canadians is both responsible and desirable. For these reasons, and in support of the fiscal direction announced in *The Budget Plan 2006*, the Committee recommends that:

8. The federal government, in order to ensure finances that enable age-related spending and the funding of recommendations contained in this report, pursue:

- **continued reduction in the size of the federal debt (accumulated deficit);**
- **a federal net debt-to-GDP ratio of 20% by 2015; and**
- **the development of a permanent mechanism by which federal tax and program expenditures are reviewed annually with a view to reducing expenditures in areas that are no longer required or relevant to Canadians.**

F. Improving Federal Financing of Public Pensions and Healthcare

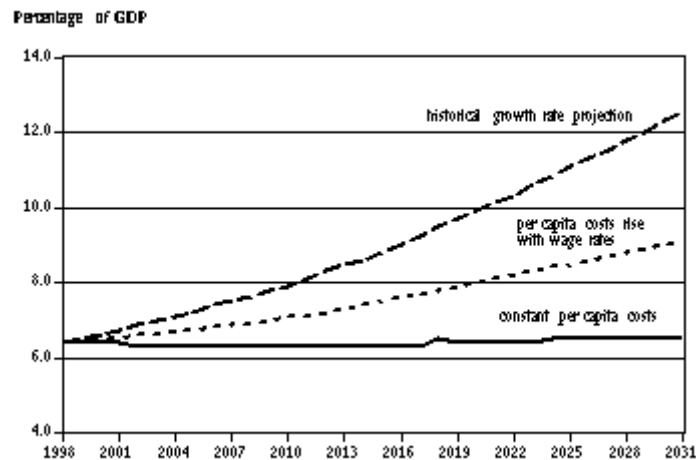
The ageing of the Canadian population will influence, to varying degrees, many areas of federal government spending. Certain expenditures, however, are especially sensitive to demographic change. For example, the growing elderly population is expected to increase the demand for certain types of public pension benefits and healthcare services. At the same time, the ageing population is expected to have repercussions for economic growth and, by extension, federal revenues and the budgetary balance.

1. The Need for, and Cost of, Healthcare

It is generally accepted that, as people age, they tend to develop health problems that result in increased use of health services, including medical services, hospitalization and/or nursing home care. Since access to hospital services is publicly funded in Canada, and per capita public spending on healthcare for those aged 65 and over is estimated to be almost five times greater than spending on the rest of the population, population ageing will likely have important consequences for healthcare expenditures.

The 1998 *Report of the Auditor General of Canada* contained healthcare cost projections to 2031. According to the medium-cost scenario, spending on health would increase from approximately 6.4% of Gross Domestic Product in 1996 to 9.0% in 2031. A high-cost scenario, which is based on historical healthcare cost growth rates, would involve nearly a doubling of spending on health as a share of GDP over the period, reaching 12.5% in 2031.

Figure 8: Projected Public Healthcare Expenditures as a Percentage of GDP, 1998 - 2031



Source: Office of the Auditor General of Canada, *1998 Report of the Auditor General of Canada, Chapter 6 – Population Aging and Information for Parliament: Understanding the Choices*, <http://www.oag-bvg.gc.ca/domino/reports.nsf/html/9806ce.html>.

In its 2004 economic survey of Canada, the Organisation for Economic Co-operation and Development noted that the healthcare system is a main fiscal challenge for Canada. Long-run sustainability is a concern, since such factors as technological pressures and population ageing are expected to increase health spending in the future.

The Organisation for Economic Co-operation and Development also said that “it will be important to monitor ... age-related public expenditures such as health and long-term care spending. Even under modest assumptions, over the next five decades, health and long-term care expenditures are forecast to rise nearly 4% of GDP, of which approximately two-thirds is age-related.”

According to the Department of Finance, “with pressures on the healthcare system already being significant, it will be increasingly important for governments to continue with healthcare reforms and to support gross domestic product (GDP) growth – the source of society’s capacity to pay for public services. However, sustaining growth in GDP per capita ... will become more challenging as the population ages.”

Dr. Henripin told the Committee that “[t]he cost of public health is growing at approximately the same rate as the percentage of people aged over 65. If the percentage of people aged over 65 doubles, there will also be a doubling of the healthcare cost paid by every taxpayer, every worker, every adult.” He added two views about how healthcare might be made more affordable for the state:

- charge each patient a small amount, or allow each doctor to charge a small amount, which would significantly reduce costs, contribute to expenditure reduction and reduce the number of visits to a doctor; and
- for extremely costly healthcare, such as that which is often incurred during the last years of life, a self-funded plan.

2. The Need for, and Cost of, Public Pensions

As the Canadian population ages, the rising costs of providing unfunded or partially funded public pension benefits to the increasing number of elderly will be borne – whether through taxes or levies – by a proportionately smaller working-age population. In 2004, the Office of the Chief Actuary prepared cost projections for the public pension plans, which forecast an increase in the combined costs of the Old Age Security and Canada/Québec Pension Plan from 5% of GDP in 2003 to 7% in 2030.

Moreover, according to the Chief Actuary, “[t]he ratio of (Old Age Security) expenditures to GDP is expected to increase from 2.4% to 3.2% between 2010 and 2030, driven largely by the retirement of the baby boomers.” He also said that “[b]alancing the budgets and taking steps to put the debt as a proportion of the GDP on a downward track are effective ways to ensure sustainable financing of the Old Age Security funded from the Consolidated Revenue Fund.”

The Policy Research Initiative provided the Committee with figures suggesting that Old Age Security/Guaranteed Income Supplement payments are expected to rise between 0.5% and 1% of GDP by 2030. The organization also suggested that public health costs are expected to rise between 2.5% and 4% of GDP by 2040.

Although Canada Pension Plan payments are also expected to increase, it is anticipated that current premium levels will cover these higher payments. The financial soundness of the Canada Pension Plan was confirmed in the *21st Actuarial Report on the Canada Pension Plan*, which was released in 2004.

The Chief Actuary of Canada said that while the retirement income “system is expected to be sustainable and affordable well into the future in the face of changing demographic conditions ... [o]ngoing review of the system will help to ensure this remains the case.” Moreover, he remarked that “[f]actors that may reduce the future financial pressure on

the public pension system include increases in net (im)migration and further increases in labour force participation rates, particularly for women and older workers.”

The Committee was informed by Dr. Henripin that “[p]ublic pensions are doing more than increasing proportionately with the percentage of older people in the population. By 2025, we can expect the public pension cost for each worker to increase by some 75 per cent. At present, healthcare and public pension costs stand at some 12 to 15 per cent of GDP. If that figure increased by 75 per cent – and I think it will increase by at least that between now and 2025 – then no less than 25 per cent of all the goods and services we produce will serve only to cover healthcare and public pension costs.”

In Dr. Henripin’s view, the system must be changed and he believes that “[t]he main remedy, and by far the most effective remedy, would be to delay retirement For any given pension system, putting retirement off for five years reduces the cost of contributions by some 40 per cent. Alternatively, if the cost of contributions remains the same, pension benefits could be some 35 to 40 per cent higher.” He also proposed that the current pay-as-you-go system for pensions, which he believes is “somewhat flawed,” be progressively moved to a capital-based system similar to that used by private pension plans.

The Chief Actuary of Canada identified a number of factors that could reduce future financial pressures on the public pension system, including:

- increases in net (im)migration;
- further increases in labour force participation rates, especially for women and older workers; and
- higher salaries associated with the anticipated labour shortage.

3. Recommendations of the Committee

The Committee recognizes the changes that are currently being implemented with respect to our healthcare system and its financing. Like the C.D. Howe Institute, however, we share the view that “[i]t is hard for the federal government to address healthcare issues because they occur at the provincial level.” Nevertheless, we believe that federal and provincial/territorial governments share a common goal: providing an affordable healthcare system that meets the needs of Canadians.

The Committee supports the measures contained in the First Ministers’ Accord on Health Care Renewal, which was signed in February 2003 and built on the health agreement reached by the First Ministers in 2000. As well, we support the September 2004 agreement reached with the First Ministers on a Ten-Year Plan to Strengthen Health Care. We urge the development of measures that will ensure accountability regarding the progress of reforms designed to ensure that Canadians are able to enjoy the healthcare system that they want.

Earlier, the Committee recommended changes to our public pensions, specifically the Old Age Security/Guaranteed Income Supplement/Spouses Allowance programs and the Canada Pension Plan. We believe that the implementation of these recommendations would result in relatively small cost increases while providing significant benefits in increased labour force participation.

Nevertheless, the manner in which people react to changes does not always mirror the predictions made about their behaviour. There are valid concerns about the cost of the OAS/GIS/SA programs in the future. While enhanced prosperity and economic growth will, we believe, mean that these costs will not be overly burdensome for the federal treasury, there are no guarantees that costs will be contained.

In light of these concerns about healthcare spending increases and, possibly, increased costs for certain public pensions, the Committee believes that accountability measures for healthcare spending must exist, that all stakeholders must ensure that healthcare funds are spent in the best possible way, and that the cost of public pensions must be reviewed periodically. It is from this perspective that the Committee recommends that:

9. The federal government, with respect to healthcare, engage in ongoing dialogue with First Ministers to:

- **increase accountability measures;**
- **ensure that the healthcare system is effective and efficient; and**
- **allocate sufficient moneys to prevention and wellness measures as well as to early diagnosis.**

With respect to the public pension system, the government – along with provincial/territorial partners, as appropriate – should engage in ongoing review of the costs of the system.

Recognizing that statutory reporting requirements already exist for some programs and initiatives, the government should report to Parliament every three years on the state of the healthcare and public pension systems.

G. Improving Productivity Growth

Economic growth is commonly used as a proxy measure for improvements in living standards, although some argue that it is an imprecise – and perhaps inappropriate and narrow – measure. That being said, economic growth is determined by growth in the employment-to-population ratio and in productivity, both of which may be influenced by demographic change.

As noted earlier, demographic change influences the labour force participation rate, which in turn affects the employment-to-population ratio. The retirement of the baby boom generation, in combination with declining fertility rates, will mean that growth in the labour force participation rate and employment-to-population ratio may slow – if not reverse – in the coming years. If the employment-to-population ratio declines and the rate of productivity growth remains constant, then economic growth will also decline.

The Policy Research Initiative told the Committee that “after 2010, as the relative size of the labour force begins to decrease, there will be negative impacts on the fiscal capacity of government and on the rate of growth of the economy.” In particular, the organization indicated that population ageing could lead economic growth to be restricted by a decline in relative labour supply.

According to the Organisation for Economic Co-operation and Development, “the most significant risk associated with population ageing lies in its drag on GDP per capita growth, driven mainly by potential effects of ageing on labour supply. ... [I]f participation rates by age and gender remain constant over the next five decades, the labour force will increase by less than 5% – in total – over this period which stands in stark contrast to the record 200% growth that occurred over the previous half century. Such a pronounced slowdown in labour force growth would make it difficult to sustain past growth rates and improvements in living standards.”

Moreover, the New America Foundation remarked that “[p]opulation growth is a major source of economic growth. No country in history has prospered in the face of declining, or even stagnant, population growth. Without population growth, economic growth will come, if at all, only through increases in individual output, or put another way, by getting more people into the labor force, and getting more out of them each day.”

As well, and as identified earlier, demographic change also affects the savings rate and the amount of domestic funds available for investment, which in turn can affect rates of investment and, ultimately, productivity growth. Once they reach retirement age, those born in the baby boom generation will begin spending their pensions and savings, effectively reducing the capital available in the market for investment.

According to the Department of Finance, “perhaps (the) most important policy implication is to set a public policy that supports productivity growth. ... In the context of an ag(e)ing population, a country must rely on productivity to increase its standard of living and not on the labour market and growth of employment. ... This is more important when the population is ag(e)ing than in other times to ensure that public policy supports growth in productivity.”

Dr. Brown also supported the importance of productivity growth as a tool. He commented that “[i]f we can become more productive, we can solve many of the problems inherent in an ag(e)ing population. We can replace a missing baby with an

immigrant. ... We can also replace a missing birth through productivity.” He also shared the view that “the number one target you want to throw your limited funding at is education. ... [I]f you give everyone the opportunity to be productive by providing them with education and capital assets, then we can all have a good standard of living.”

Clearly, the Committee supports the importance of productivity growth for the future prosperity of our nation. Our support would exist even in the absence of the challenges associated with population ageing that lie ahead. In our view, the demographic change that will occur simply highlights the importance of acting expeditiously to ensure that our productivity growth is as high as possible, as soon as possible. In our June 2005 report, we outlined recommendations that we believe, if implemented, would put Canada on the path of higher and sustained productivity growth. From that perspective, the Committee recommends that:

- 10. The federal government act expeditiously to implement the recommendations contained in the June 2005 report of the Standing Senate Committee on Banking, Trade and Commerce entitled *Falling Behind: Answering The Wake-Up Call – What Can Be Done To Improve Canada’s Productivity Performance*, noting the measures contained in *The Budget Plan 2006*.**

CONCLUSION

Canada is ... better placed to meet the challenges of population ageing than many other (Organisation for Economic Co-operation and Development) countries. First, population ageing is occurring less rapidly in Canada than in many other OECD countries. ... Second, a number of past reforms have strengthened public finances. ... In addition, sound macroeconomic policies, notably low and stable inflation coupled with declining debt-to-GDP ratios, mean that Canada is well placed to meet emerging fiscal pressures associated with ageing. (*Organisation for Economic Co-operation and Development*)

The Committee understands that, while population ageing in Canada is a well-established fact that will have significant implications in a wide range of areas, its precise impact is difficult to predict with any certainty. Projected demographic trends and their anticipated impacts are the result of models and forecasts, which are highly dependent on their underlying assumptions. While typically based on current demographic and economic trends and “reasonable” projections, unforeseen changes in behaviour, technology or policies could cause forecasted and actual outcomes to differ. Consider, for example, the impact of a pandemic on Canada’s demographic profile, the labour force participation rate, and economic and productivity growth, among other considerations.

The Committee supports the assertion of many witnesses that the time to act is now. While it is not possible to reverse such demographic trends as the ageing population, there are measures that could be implemented to mitigate or adapt to the impacts of demographic change. In this report, we have recommended such measures. We believe that policies, programs and incentives designed to increase labour market participation rates, to improve productivity, and to manage the costs of our healthcare and public pension systems are the keys to managing the impact of demographic change as we go forward. In so doing, we believe it is vitally important that intergenerational cohesion is safeguarded: we do not want our younger and future generations to feel unfairly burdened by the actions that are taken today.

The Committee believes that a national dialogue is needed in order to develop a coherent – and comprehensive – nationwide strategy to address the challenges of demographic change and, specifically, an ageing Canadian population. We hope that the federal government will take a leadership role in such a dialogue, and urge stakeholders – particularly the government – to consider our recommendations. We feel that they are critical inputs in the development of a strategy that will help Canada prosper in light of the demographic challenges ahead. The time to act is now, and actions must be implemented on a priority basis: they must be, in the truest sense of the term, priority actions.

APPENDIX A: WITNESSES

Name of Organization	Name of Witness	Date of Appearance
<i>As an Individual:</i>	Robert L. Brown , Director, Institute of Insurance & Pension Research and Professor, Department of Statistics & Actuarial Science, University of Waterloo. Jacques Henripin , Professor emeritus, University of Montreal.	October 20, 2005
<i>C.D. Howe Institute:</i>	William B.P. Robson , Senior Vice-President and Director of Research.	October 19, 2005
<i>Canadian Federation of Independent Business:</i>	Richard Fahey , Vice-President, Québec; Rob Taylor , Senior Policy Analyst, National Affairs.	October 19, 2005
<i>Department of Finance Canada:</i>	Benoit Robidoux , Director, Economic and Fiscal Policy Branch, Economic Studies and Policy Analysis Division.	October 19, 2005
<i>New America Foundation:</i>	Phillip Longman , Bernard L. Schwartz Senior Fellow.	October 20, 2005
<i>Office of the Superintendent of Financial Institutions:</i>	Jean-Claude Ménard , Chief Actuary.	October 20, 2005
<i>Organisation for Economic Co-operation and Development:</i>	Steven Tobin , Economist, Directorate for Employment, Labour and Social Affairs, Employment Analysis and Policy Division.	October 20, 2005
<i>Policy Research Initiative:</i>	Terrance Hunsley , Senior Project Director; Alain Denhez , Associate Project Director.	October 19, 2005
<i>Statistics Canada:</i>	Pamela White , Director, Demography Division; Alain Bélanger , Coordinator, Research and Analysis, Demography Division.	October 19, 2005
<i>The Conference Board of Canada:</i>	Paul Darby , Deputy Chief Economist.	October 19, 2005