Seeing Beyond Risk

Canadian Institute of Actuaries / Institut canadien des actuaires

Voir au-delà du risque

COMMUNIQUÉ

Retirement age crisis? No.
Questioning retirement age conditions? Canada's actuaries say yes.

Ottawa, November 1, 2013 – In contrast to mass protests a few years ago in European countries (France, Italy, Poland and Spain, for example) over governments' austerity packages lifting the retirement age, Canadians barely raised an eyebrow when the federal government moved the eligibility trigger for the Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits from age 65 to 67.

Despite this apparent lack of concern, the fact that we are living longer will create challenges that must be overcome.

Jacques Lafrance, President of the Canadian Institute of Actuaries, said today, "In the next few months, the Institute will be releasing final versions of the first-ever Canadian pensioner mortality tables, which confirm that Canadians who are members of pension plans are living longer than previously predicted. For example, a woman aged 65 in 2014 was expected to live another 22.1 years. The new table indicates a life expectancy of 24.5 years. For a man aged 65, the number has increased over 2.5 years to 22.5 years.

"Think about how living an unanticipated 2.5 more years might impact your retirement saving strategy—or your employer's pension plan. These changes are significant to Canadians, their employers, and their governments."

According to Canada's actuaries, there may be challenges with increased longevity, but we are not facing a crisis. Prior to the change in the OAS/GIS entitlement age, the cost of the programs was expected to increase from 2.3% of Canada's gross domestic product in 2010 to a peak of 3.1% in 2030. With the change to be fully implemented in 2029, the cost is expected to peak at 2.9% of gross domestic product in 2023.

However, there are other areas where policymakers should take notice. For example, current legislation forces individuals to start withdrawing from registered retirement vehicles not later than at age 71. Given that Canadians are living longer, and that investment returns have been and are currently at low levels, the government would be well advised to consider raising that age to provide more flexibility.

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In fact, the concept of “retirement age” itself may be outdated. Many older Canadians are making a gradual transition to retirement, working part-time or for reduced hours. Our current regulatory environment was designed in an era when retirement was a “cliff” event, with workers moving immediately from full-time work to a complete cessation. M. Lafrance added, “While governments have made some progress in amending pension legislation and government programs to better accommodate phased retirement, a fresh look at these rules in order to make further progress would be a good idea.”

Another concept that should be examined in light of increased longevity is early retirement incentives. Many workplace defined benefit pension plans subsidize early retirement. While these cover a declining percentage of the private sector workforce, public sector plans cover more than 80% of government employees, and almost all of them incorporate significant early retirement incentives. This means that government employees can generally retire earlier than their private sector counterparts, with a full pension or one that is of greater actuarial value. These incentives are costly and their impact is not well understood. And in an era of increasing longevity, significant demographic shifts, and a potentially shrinking workforce, they may not make much sense any more.

Early retirement incentives for government employees are perceived by many as being a sectoral inequity, and one which the taxpayers who foot the bill may be increasingly reluctant to support.

M. Lafrance said, “Canada is in an enviable position compared with most other developed countries as we are not facing a retirement program crisis. However, we should not use that as an excuse to avoid important policy decisions that will benefit all Canadians. When considering changes, the governments should consider the effects on other public programs and the overall retirement system, including how the measures may affect positively or negatively our economy, now and in the future.”

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The Canadian Institute of Actuaries is the national organization of the actuarial profession. The Institute is dedicated to serving the public through the provision, by the profession, of actuarial services and advice of the highest quality. In fact, the Institute holds the duty of the profession to the public above the needs of the profession and its members.

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