

MEMORANDUM

To: All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries, and other interested parties

From: Single Topic Task Force on Retirement Age
Joe Nunes, Co-champion
Jacques Tremblay, Co-champion

Date: September 19, 2017

Subject: Notice of Intent – Level-2 CIA Public Statement on Public Pension Plans

Comment Deadline: October 12, 2017

Document 217095

Introduction

In March 2017, the CIA Board approved the topic of retirement age for the development of a level-2 CIA public statement. This notice of intent (NOI) sets out the proposed direction and content of the public statement. The Public Statements Committee (PSC) will ensure that the development of this public statement conforms to the [Policy on the Approval of Public Statements](#).

In the new policy, formally adopted at the CIA Annual Meeting in June 2017, a level-2 public statement is defined as one which seeks member input and requires Board ratification prior to its release. Member input will be gathered and considered through the following steps during the development of a level-2 public statement:

- An NOI will be circulated to members, with a minimum of 14 days given to provide comments. Input received at this stage helps guide the development of a complete first draft.
- Once a complete first draft is ready, it will be circulated to members with a 30-day comment period. A summary of the input received on the NOI, as well as how it was addressed will be included. The input received at this second stage will be reviewed closely and considered by the drafting entity.
- Once a revised complete draft is ready, it will be circulated to members for comment. The CIA Head Office will hold at least one public hearing to gather input on the revised complete draft. Such hearing(s) may be a webcast, a series of town hall meetings, a session at a meeting of the CIA, etc. Comments received at this stage will be used to further refine the document before it is sent to the PSC for approval and then to the CIA Board for ratification.

Issues

A number of Organisation for Economic Co-operation and Development (OECD) countries have increased the age of eligibility for public pensions. In 2012, Canada's Conservative government decided to increase the age of eligibility for Old Age Security (OAS) from 65 to 67. However in 2016, the Liberal government decided to re-establish the age of eligibility at 65. The American Academy of Actuaries has advocated for an increase in the Social Security retirement age. This topic is in the actuarial domain.

There are two issues related to retirement age that should be addressed in such a public statement:

- Issue one: Whether Canadians should plan to work longer, and what measures to employ to encourage this behaviour.
- Issue two: Whether the pensionable ages (early, normal, late) for OAS/ Guaranteed Income Supplement (GIS) and the Canada/Québec Pension Plan (C/QPP) should be raised from their current levels.

Issue one considers that the trend towards working past the age of 65 is happening gradually today in Canada, but for a minority of Canadians. Canadians may naturally work later for a number of reasons, including inadequate savings at retirement (resulting in part from low interest rates and living longer), labour shortages, and availability of appropriate employment for older employees.

Issue two is controversial. Some argue that maintaining the normal pensionable age of 65 is not realistic and that an increase in age of eligibility is long overdue. Others argue that instituting a self-adjusting mechanism for the normal pensionable age would reduce the cost of these programs and minimize future political interference. The normal pensionable age was established some 50 years ago, and although the current government has confirmed it to be 65 for CPP, OAS, and GIS, one would expect that in the future, this will become totally disconnected with the age at which Canadians effectively retire. When plan designs need to be updated, actuaries should feel compelled to provide guidance to policymakers.

Others do not see a need to make a change to the normal pensionable age of 65, as the current policymakers have made their choice very clear. They claim that keeping the present ages of eligibility for OAS/GIS and C/QPP does not put undue financial pressure on these programs. Furthermore, as Canadians can choose when to begin receiving OAS/GIS and C/QPP up to age 70, they will make their choice according to their own personal situation (finances, health, and lifestyle), and could naturally choose to begin receiving pensions later. Hence according to this view, continuing to allow Canadians to start receiving their OAS/GIS pension between 65 and 70, and their C/QPP pension between 60 and 70, just provides flexibility and does not force any retirement behaviour.

Another relevant issue is the effect of an aging population on economic growth, tax revenues, and healthcare costs. Studies are available that illustrate these effects, and these will be carefully reviewed by the single topic task force (STTF) members.

This CIA public statement would be received as an important contribution to this debate and would be of considerable interest to many Canadians.

Key Components

The public statement would provide sufficient background and would refer to studies and research on prolonging working life and the impact of changing the normal pensionable age. If appropriate, it would propose principles for periodically reviewing and changing the pensionable ages in public plans.

Issues for Consideration

The STTF intends to review and reflect on the implications on healthcare funding, tax revenues, labour force participation, economic growth, and private pension plans, and recommend whether the CIA should take a position on the following:

Whether Canadians should plan to work later, and what measures to employ to encourage this behaviour.

- Address whether policymakers should consider measures to encourage Canadians to work past the age of 65.
- Consider factors that influence the decisions of older workers at advanced ages to continue to work or not.
- Identify effective measures, which could include the following:
 - i. A review of early retirement incentives in public and private plans;
 - ii. A change in the age of eligibility of OAS/GIS and C/QPP;
 - iii. Tax incentives on working income; and
 - iv. Guidelines for employers on how to employ older workers.

Whether the pensionable ages (early, normal, and late) for OAS/GIS and C/QPP should be raised from their current levels.

- Consider the impact on the cost of OAS/GIS and C/QPP of increasing longevity and various pensionable ages.
- If an increase is deemed appropriate, the statement would have to recommend how to increase such ages.
- Identify the impact of such a change on provincial pre-retirement social security programs such as welfare programs.
- Analyze the impact of intra- and intergenerational transfers, considering contribution and benefit levels of the following:
 - i. Workers at different ages; and
 - ii. Workers at different earnings levels.
- Raising the normal retirement age could be considered by some as a regressive measure that would particularly affect workers in physically-demanding jobs. What measures could be taken to mitigate this potential negative impact (cross subsidization by gender, education, wealth, location)?

- Analyze the impact on private pension plans.
- Consider the impact of mortality improvement for different cohorts.
- Review the disability experience after age 60, and the impact on private disability plans if retirement rules change in public plans.
- How would raising the pensionable ages cause workers to stay in the workforce longer and what impact will this have on young people trying to find employment?
- Should the range of pensionable ages and the calculation of benefit formulation at specific ages also be changed? Should it be raised to 75 or beyond?
- Should there be an automatic balancing mechanism tied to life expectancy?
- Consider how other countries are handling the age of eligibility issue.
- Examine reasons why workers have applied for C/QPP pensions before age 65.

Background Information

- Life expectancy (m,f) at age 65 from 1966 to 2016;
- Healthy life expectancy: as far back (to 1966) as data will allow;
- Age of exit from the labour force: 1986 to 2016; and
- Age/dependency ratio: previous 50 years.

Reports for Reference

- C.D. Howe Institute Commentary No. 475: [Greener Pastures: Resetting the Age of Eligibility for Social Security Based on Actuarial Science](#);
- CIA: [Issues Related to Increasing the “Retirement Age”](#);
- Institute for Research on Public Policy (IRPP): [Unfinished Business: Pension Reform in Canada](#);
- Public Consultation on the Québec Pension Plan: [Observations on Retirement in Québec](#); and
- American Academy of Actuaries *Essential Elements*: [Raising Social Security’s Retirement Age](#).

Questions to Answer

- What is the economic impact of Canadians working longer?
- If there is an economic gain in Canadians working longer, will Canadians themselves make the decision to work longer?
- If Canadians choose not to work longer, what measures should be employed to encourage them to do so?
- If it is deemed necessary to modify the OAS/GIS and C/QPP pensionable ages, how would it affect other programs like government funded drug benefit plans?

The focus of this public statement will be on the issues outlined above, however, member input is not restricted solely to these issues.

Proposed Timeline

The STTF plans to host a session at the upcoming [CIA Pension Seminar](#) on November 7, 2017 in Toronto, followed by a webcast later in 2017. Members will have another opportunity to provide comments at the Montréal Pension Seminar in early 2018.

A first formal draft of the public statement is expected to be circulated to members for comment by January 2018. A second formal draft is planned to be circulated to members ahead of a public hearing by May 2018. We anticipate the final public statement to be presented to the Board for ratification in June 2018.

Single Topic Task Force

The CIA Board approved the members of the STTF in May 2017, which shall serve as the drafting entity. Members of the STTF include the following:

Name	Employer	Role
Jacques Tremblay, FCIA	Oliver Wyman	Co-champion
Joe Nunes, FCIA	Actuarial Solutions	Co-champion
Rob Brown, FCIA	Retired	
Pierre Plamondon, FCIA	Former chief actuary to the Québec Pension Plan	
Serge Charbonneau, FCIA	Morneau Shepell	
Barbara Sanders, FCIA	Simon Fraser University	
Denis Latulippe, FCIA	Université Laval	
Michel St-Germain, FCIA	Mercer	
Carly Wybrow, FCIA	Actuarial Solutions	

Specific individuals outside of the drafting entity have been identified as interested parties and have expressed a desire to participate in the development of this public statement. These individuals are listed below:

Name	Organization
Assia Billig, FCIA	OSFI
Bonnie-Jeanne MacDonald, FSA	Dalhousie University
Malcolm Hamilton, FCIA	Retired
André Picard, FCIA	International Labour Organization

They will be requested to review drafts at different steps in the process. Other interested parties may be consulted, if those above are unable to participate. This would be done in consultation with the CIA President, the STTF co-champions, the Executive Director, and the chair of the Public Statements Committee, per the policy on the approval of public statements.

Member Feedback

Member feedback on the development of this public statement is very important. The STTF is soliciting member feedback on the two issues and support for/against the two views. Relevant actuarial matters which the committee should consider are welcome. Comments are invited by **October 12, 2017** and may be submitted by e-mail to RetirementAgePublicStatement@cia-ica.ca. No other forums for obtaining feedback on this NOI are contemplated at this time.

Due process has been followed in the preparation of this NOI.

JT, JN