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Older Workers:
Amending Federal Government Retirement
Programs to Tap Into an Underutilized Pool of
Labour Supply

**Calgary Chamber of Commerce Submission to the Federal Expert
Panel on Older Workers
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EXECUTIVE SUMMARY

Older workers represent a significant source of underutilized talent and labour supply in the Canadian economy. However, federal government retirement programs and policies such as the *Canadian Pension Plan*, *Old Age Security* program, and tax-assisted private savings policies, do not reflect the current demographic, retirement and life expectancy realities in Canada. In fact, these programs may actually deter older worker participation, when they could be modified to create incentives to continue in the labour force.

The Federal Expert Panel on Older Workers has been commissioned to review the labour market conditions of older workers and identify barriers and strategies for improving labour market outcomes. This submission addresses the following questions as outlined in the Panel's *Terms of Reference*:

- What is the impact of population ageing on the economy and labour force?
- What are the barriers and disincentives for older worker labour force participation?
- What are the possible policy initiatives to increase older worker participation in the labour force?

Based on the analysis presented in this submission, the Calgary Chamber of Commerce recommends that the federal government:

1. Expand the age range at which people are eligible to access their *Canada Pension Plan* benefits from 60-70 to 60-75, and provide progressive deferral incentives for individuals who access the pensions during the newly expanded range (e.g. permanently increasing the annual pension by 12% for each year it is postponed after age 70);
2. Amend the *Old Age Security* program to remove the claw back mechanism to encourage the most highly skilled and experienced Canadians to continue working after age 65;
3. Amend tax-assisted private savings policies to provide greater flexibility for Canadians to continue saving for retirement after age 72, such as the deferral of compulsory RRSP transfers into RRIFs until age 75, or a phased approach of 50% RRSP transfer at the age of 72 and up to 50% transfer until age 75; and
4. Work with the provinces to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to gradually transition out of the labour force after age 65.

These recommendations will provide greater flexibility and incentive for older workers to continue participation in the labour force, and play a vital role in alleviating labour shortages confronting the Canadian economy.

It is estimated that the proposed approach could increase Canadian labour force participation by as much as 767,000 in 2007 (3.5%), and 1.7 million by 2056 (7.2%) it would also generate over \$24 billion in government tax revenues and pension savings in 2007, and over \$49 billion by 2056.



I. INTRODUCTION

The Calgary Chamber of Commerce represents over 3,200 Calgary based businesses and seeks to raise the consciousness and quality of public discourse on key policy issues confronting its members and stakeholders, through informed discussion grounded in fact and reasoned analysis.

In a 2007 survey, Chamber members identified labour shortages as the number one issue impacting their businesses.

Older workers (55+) represent a significant source of underutilized talent and labour supply in the Canadian economy. However, federal government retirement programs and policies such as the *Canadian Pension Plan*, *Old Age Security* program, and tax-assisted private savings policies, do not reflect the current demographic, retirement and life expectancy realities in Canada. In fact, these programs may actually deter older worker participation, when they could be modified to create incentives to continue in the labour force.

The Chamber puts forth this submission on behalf of its members adversely affected by the labour market challenges confronting the Calgary, Alberta and Canadian economies. This submission addresses the following questions as outlined in the Terms of Reference of the Federal Expert Panel on Older Workers, as presented on the Panel website and in the Panel discussion document entitled *Older Workers: Challenges and Policy Issues*:¹

1. What is the impact of population ageing on the economy and labour force?
2. What are the barriers and disincentives for older worker labour force participation?
3. What are the possible policy initiatives to increase older worker participation in the economy?

II. DISCUSSION AND RECOMMENDATIONS

1. What is the impact of population ageing on the economy and labour force?

The demographic challenges confronting the Canadian economy and society are well documented. With the baby boom generation entering retirement, combined with low fertility rates and increased life expectancies, the Canadian population is forecast to age significantly over the coming decades. The proportion of working age Canadians (between 15 and 64) will decline from 70 per cent in 2005 to 62 per cent by 2031 and the 'demographic dependency ratio' (defined as number of children less than 15 and seniors over 65 per 100 working-age people) will increase from 44 in 2005 to 61 by 2031 – representing a 39 per cent gain (Statistics Canada, 2005).

¹ For an overview of the Expert Panel on Older Workers and Terms of Reference see <http://www.ow-ta-sec.org/en/index.shtml>.



These factors will place an increased burden on the working age population. Based on current government tax rates and demographic projections, the total government unfunded health care and retirement benefit liabilities could be as high as \$1.2 trillion and \$140 billion, respectively, by 2055 (Robson 2006:4).

These demographic realities also place pressure on the labour market. The baby boom generation (those born between 1945 and 1965) represents 58 per cent of the labour force, and is expected to retire over the next 20 years. The oldest of this generation turned 60 in 2005, and it is expected that the number of workers exiting the labour force will exceed the number entering by as early as 2015 (Office of the Superintendent of Financial Institutions 2003). These conditions pose significant challenges for businesses seeking to maintain or expand their operations – particularly during the recent period of strong economic growth.

The Calgary Chamber of Commerce argues that federal government retirement programs and policies such as the *Canadian Pension Plan*, *Old Age Security* program, and tax-assisted private savings policies, do not reflect the current demographic, retirement and life expectancy realities in Canada. In fact, these programs may actually create disincentives for older workers to participate in the labour force and require updating.

2. What are the barriers and disincentives for older worker labour force participation?

The Canadian Pension Plan (CPP)

The CPP is an earnings-based pay-as-you-go pension program established in 1966, which entitles a contributor to a pension at age 65. The CPP was established during the post-boomer generation era when the population birth rate had just begun to decline (Office of the Superintendent of Financial Institutions, 1995, as cited in Rosen *et al* 2003:246) and the average life expectancy was approximately 69 for men and 75 for women (St-Arnaud, Beaudet and Tully, 2005:43). In 2002, life expectancy at birth has increased to 77 for men and 82 for women.

Since the creation of the CPP, the median age of retirement has trended downwards from approximately 65 in the late 1970s and early 80s for both men and women, to 62 for men and 60 for women in 1997 onward (Statistics Canada, 2006:1). This decrease may be attributed to a number of factors including: the creation of the CPP itself (Rosen *et al*, 2003:240); changes to the CPP in 1987 that allowed workers to access pension benefits as early as age 60; and recessionary periods in the 1990s and the popularity of early retirement incentives (Stats Can 2005:1).

Longer life expectancies, trends towards earlier retirement, and an ageing boomer generation coupled with low birth rates, are factors not contemplated in the original design of the CPP. In 1966, the CPP would have provided benefits for an average of four



years for males and ten years for females. As a result of demographic and retirement trends over the last few decades, the length of CPP coverage has increased drastically – spanning 15 years for males and 22 years for females in 2002.

The economic conditions that rationalized the need for early access to pensions and early retirement incentives characteristic of the 1980s and 90s are no longer relevant. Canada has experienced strong economic growth over the last decade, which has led to significant demand for labour and this trend is expected to continue.

Consequently, there is an opportunity to amend the *Canada Pension Plan* to encourage older workers to continue participation in the labour force and alleviate workforce pressures confronting the Canadian economy. However, raising the age of CPP eligibility is not the solution, as this approach could be detrimental to low income seniors and other individuals who have made lifetime retirement investment decisions based on the current pension eligibility framework.

Rather, the federal government could extend the age range at which people are able to access their pensions while providing progressive deferral incentives for individuals who access the pensions at a later date.

For instance, the federal government could increase the CPP eligibility age range from the current 60-70 to 60-75, and permanently increase the annual pension paid for each year it is postponed after age 70 by 12 per cent. This approach would be similar to the government's previous CPP policies of increasing CPP payments by six per cent for each year it is postponed after 65.

This proposed change would provide increased choice, flexibility, and financial incentive for older workers to continue participating in the work force without penalizing those who have planned for retirement based on the existing program structure.

Old Age Security

Old Age Security (OAS) is an income redistribution program for seniors, and is an important benefit for people with low income at retirement. The OAS program is available to people at age 65, but is progressively clawed back starting at income levels above \$62,144, and is fully clawed back at income levels of \$100,914 (for the 2006 tax year).

At the threshold where the OAS payments are reduced, the most highly skilled and employable older workers are penalized, resulting in a lower per hour salary based on the claw back. In 2002, it was estimated that five per cent of seniors were subject to the OAS claw back and two per cent lost their entire OAS benefits (Rosen *et al*, 2003:243). Removing this disincentive could encourage this group of older workers to continue to participate in the labour force after age 65.



Tax-Assisted Private Savings

Under current federal policy, a person must withdraw his or her Registered Retirement Savings Plan (RRSP) funds, transfer them into a Registered Retirement Income Fund (RRIF), or use them to purchase an annuity, before year-end of his/her 71st birthday. This is a further disincentive to work, as these funds, which must be taken out of the tax-sheltered status, are taxed at one's marginal rate. Some people at age 72 are both willing and able to work, but fail to see the benefit when they stand to be taxed at significantly higher levels on the income previously saved for retirement.

Part-Time Pensions

The current pension system in many provinces does not effectively allow for part-time worker pensions. In some provinces, the amount of pension that a retirement eligible employee can withdraw while still working is very small. Other jurisdictions do not even provide this flexibility. Pension policies that accommodate part-time employment provide incentive for older workers to continue participating in the labour force while pursuing other interests.

3. What are the possible policy initiatives to increase older worker participation in the economy?

Recommendations

Based on the analysis presented in this submission, the Calgary Chamber of Commerce recommends that the federal government:

1. Expand the age range at which people are eligible to access their *Canada Pension Plan* benefits from 60-70 to 60-75, and provide progressive deferral incentives for individuals who access the pensions during the newly expanded range (e.g. permanently increasing the annual pension by 12% for each year it is postponed after age 70);
2. Amend the *Old Age Security* program to remove the claw back mechanism to encourage the most highly skilled and experienced Canadians to continue working after age 65;
3. Amend tax-assisted private savings policies to provide greater flexibility for Canadians to continue saving for retirement after age 72, such as the deferral of compulsory RRSP transfers into RRIFs until age 75, or a phased approach of 50% RRSP transfer at the age of 72 and up to 50% transfer until age 75; and
4. Work with the provinces to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to gradually transition out of the labour force after age 65.



Fiscal Implications

These proposed changes will have significant, but net positive, fiscal implications for the federal government. Removing financial disincentives for older worker participation in the labour force will increase the age at which people choose to retire, reducing the length of time retirees access retirement programs, and increasing federal income tax revenues through longer labour market participation. However, CPP deferral incentives and reduced OAS claw backs will increase total government retirement program liabilities. Raising the mandatory age of RRSP withdrawal could defer the associated income tax revenues and decrease the marginal rate at which this income is taxed.

If government retirement programs and policies were adjusted to effectively encourage individuals aged 65-69 to participate in the labour force to the same extent as 60-64 year olds (i.e. increasing 65-69 participation rates from 17.8% to 45.1%), and individuals over 69 to participate in the labour force to the same extent as 65-69 year olds (i.e. increasing 70-74 participation rates from 4.2% to 17.8%), the Chamber estimates that the number of workers participating in the Canadian labour force would increase by 767,000 in 2007 (3.5%), and 1.7 million by 2056 (7.2%).² The total government income tax revenues associated with this increased labour force participation are estimated to increase by over \$4 billion in 2007 and \$9 billion by 2056.

Moreover, if the proportion of recipients and average retirement incomes of individuals age 65-74 paralleled those of individuals aged 55-64 and the average pension income for those 65 and older increased by 12% as a result of these changes, it is estimated that total CPP, QPP and OAS obligations would decrease by \$20 billion in 2007 and \$40 billion by 2056.³

The net effect is an overall benefit of \$24 billion in 2007 and \$49 billion by 2056.

III. SUMMATION

As clearly demonstrated by the discussion and analysis contained in this submission, the Chamber's recommendations will provide greater flexibility and incentive for older workers to continue participation in the labour force, and play a vital role in alleviating labour shortages confronting the Canadian economy.

The content and complexity of the issues and information contained in this submission, however, suggests that more detailed research relating to the implications and merits of the proposed recommendations would be of additional value.

Should there be interest in commissioning further research, the Calgary Chamber of Commerce welcomes the opportunity to put forward a proposal for funding, in accordance with the requirements and guidelines of your department's research protocols.

² Based on 2006 participation rates and derived from CANSIM Tables 2820002, 5200004 and 2020501

³ Derived from CANSIM Tables 510001, 520004 and 2020407.



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