



2008 ALBERTA CHAMBERS OF COMMERCE RESOLUTION

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

Alberta's strong economy continues to produce jobs faster than the labour market can respond. The 2007 unemployment rate was 3.5 per cent and the Alberta government estimates that the province will experience a shortfall of 109,000 workers by 2016.¹

Older workers represent a significant source of underutilized talent and labour supply in the Canadian and Albertan 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 and mitigate the impacts of the coming demographic shift.

Governments at every level are becoming aware and active on the challenges posed by an aging workforce. The federal government convened the Federal Expert Panel on Older Workers to review the labour market conditions of older workers and identify barriers and strategies for improving labour market outcomes. In congress, a number of provinces launched the Targeted Initiative on Older Workers, a mentoring and labour market re-entry program to increase older worker labour force participation. The Government of Alberta has also held public consultations on the aging workforce and is expected to bring forward proposals to address the issue in the near future.

Background

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-percent gain.²

These factors will place an increased burden on the working age population. Based on current government tax rates and demographic projections, the total government

¹ Alberta Employment, Immigration and Industry. 2006. Alberta's Occupational Demand and Supply Outlook 2006-2016. November.

² Statistics Canada. 2005. Population Projections 2005 to 2031. The Daily, December 15 2005. Government of Canada. Ottawa, ON <http://www.statcan.ca/Daily/English/051215/d051215b.htm>



unfunded health care and retirement benefit liabilities could be as high as \$1.2 trillion and \$140 billion, respectively, by 2055.³

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 2015.⁴ These conditions pose significant challenges for businesses seeking to maintain or expand their operations – particularly during the recent period of strong economic growth.

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. However, longer life expectancies, trends towards earlier retirement, and an aging 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 10 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 federal government needs to extend the age range at which people are able to access their pensions by providing progressive deferral incentives for individuals who access the pensions at a later date. This would provide increased choice, flexibility, and financial incentive for older workers to continue participating in the workforce without penalizing those who have planned for retirement based on the existing program structure.

The CPP program also creates a disincentive for people to return to the workforce if they have retired before the age of 65. For example, if an individual retires between the ages of 60 and 65, after 10 years of maximum contribution at the maximum CPP premium, and subsequently accepts employment or engages in self-employment that does not accommodate paying the maximum CPP contribution, the years of reduced contribution become part of the 10 years used for calculating CPP payment entitlement.

The net result is that individuals in these circumstances would receive a reduced CPP pension as a result of their decision to return to the workforce at an income level below that of their previous employment. When confronted with the option to receive a full or reduced CPP pension, these individuals may credibly refuse to re-enter the workforce and, thus, no longer be a viable alternative to alleviating the current and future labour shortage.

³ Robson, William B.P. 2006. Time and Money: Tracking the Fiscal Impact of Demographic Change in Canada. CD Howe Institute e-brief. Toronto ON. www.cdhowe.org/pdf/ebrief_35.pdf

⁴ Office of the Superintendent of Financial Institutions. 2003. *Second Actuarial Report on the Canada Student Loans Program*. ON



It is estimated that expanding the age range at which people can access their CPP could increase Canadian labour force participation by as much as 767,000 in 2007 (3.5 per cent) (80,000 in Alberta), and 1.7 million by 2056 (7.2 per cent per cent). It would also generate over \$24 billion in government tax revenues and pension savings in 2007, which increase to over \$49 billion by 2056.

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.⁵ 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 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.

The Alberta Chambers of Commerce recommends the Government of Alberta and the Government of Canada:

1. Expand the age range at which people are eligible to access their Canada Pension Plan benefits from 60 to 70 to 60 to 75, and provide progressive deferral incentives for individuals who access the pensions during the newly expanded

⁵ Rosen, Harvey S., Dahlby, Bev, Smith, Robert S. 2003. *Public Finance in Canada 2nd Ed.* Ch. 12. McGraw-Hill Ryerson ON. p 243.



range (e.g., permanently increasing the annual pension by 12 per cent 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 the RRSP policies to provide greater flexibility for Canadians to save for retirement after age 72, such as the deferral of compulsory RRSP transfers into RRIFs until age 75, or a phased approach of 50-per-cent RRSP transfer at the age of 72 and up to 50-per-cent transfer until age 75.
4. Work with the federal government to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to transition out of the labour force after age 60.
5. Sign on to the Targeted Initiative for Older Workers program.