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RETIREMENT SAVING AND INCOME POLICY

The Evolving Wealth of Canadians: Who Is Better Fixed for Retirement? Who is Not?

by
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- The real median value of both the assets and net worth of Canadians approaching retirement age doubled from 1999 to 2019. By comparison, real median family incomes in 2019 were 1.2 times their level in 1999 (\$62,900 versus \$50,400). Therefore, from an earnings/income replacement perspective, the increase in wealth looks particularly helpful for future retirement incomes.
- However, that help will be tempered by the rising costs of a dollar of annuity income. Plus, there are significant subsets of the population for whom this rosy scenario does not hold. It is particularly disappointing to see that about one-quarter of people aged 45 to 64 have no private retirement assets. It is also disappointing to see that the median RRSP and TFSA wealth accumulations for people who are not participating in workplace pension plans (WPPs) is low. It also appears that wealth accumulation in defined-contribution WPPs is less fulsome than in defined-benefit plans.
- These realities suggest that a minority of the future elderly may have trouble maintaining their standard of living in retirement. What are the implications for changes to Canada's retirement income system?

In Canada's multi-pillared retirement income system (RIS), many retirees will draw in part on private wealth to support their targeted standard of living in retirement. Very few empirical reviews of the characteristics and evolution of private retirement wealth exist – and market, policy and behavioural changes mean that they can quickly become outdated. By updating results presented in Baldwin (2019), which analyzes data from Statistics Canada's Survey of Financial Security (SFS), conducted every three years, this E-Brief highlights trends in the evolution of retirement

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Box 1: Survey of Financial Security

The Survey of Financial Security (SFS) polls Canadians on their financial and non-financial wealth and their debts. The SFS in its current form has been conducted in 1999, 2005, 2012, 2016 and 2019 and includes all major forms of pension wealth. Between 2016 and 2019, the government announced that it would conduct the SFS every three years.

The SFS unit of analysis is the economic family living in a dwelling, or in some rural areas, a geographic cluster. It is composed of two or more individuals and individuals not in families. As a shorthand, I often refer to “families” to include both economic families and individuals not in families. In all age groups, there has been a decline in the proportion of economic families: the 45-to-54 age range has the highest proportion of individuals in economic family units at 74 percent in 2019, down from 79 percent in 1999. The 65-and-over range has the smallest proportion of economic family units with 48 percent in 2019, down from 53 percent in 1999.^a

In the tables in this report, the median values of assets that are cited are medians for the families that own the asset. In cases where the asset is owned by virtually the entire population, the median for the wealth holders will be about the same as for the entire population. In cases where the wealth is owned by a subset of the population, this will not be the case. Many tables include the percent of the population that owns the asset. All dollar values for all years are in 2019 dollars. Therefore, dollar values from years prior to 2019 are grossed up by the degree of increase in the consumer price index between the earlier year and 2019.

a The point will not be pursued in this E-Brief, but generally the net worth of persons not in families is disproportionately small compared to families.

wealth over two decades, from 1999 to 2019.¹ This evolution among Canadians approaching retirement age may foreshadow the adequacy of future retirement incomes and reveal potential areas of concern.

This E-Brief documents substantial growth in the real value of assets and net worth of Canadian families over the last 20 years. From an earnings/income replacement perspective, the increase in wealth looks particularly helpful. This marked hike has been driven in large measure by an increase in registered retirement wealth and in the value of principal residences. This E-Brief focuses on these two sources of increase and identifies challenges in converting them into greater retirement incomes. It will discuss policy implications that can and cannot be safely drawn from the SFS data, which are sufficient to provide a high-level diagnostic but insufficient to provide a detailed response to the diagnostic.

1 Most data for this E-Brief are drawn from the Survey of Financial Security (2019). Possible impacts of COVID-19 on retirement saving are not captured. Box 1 provides a brief comment on the SFS for readers who are not familiar with it.

Table 1: Total Assets and Net Worth (Median Values 1999 and 2019 in Real 2019 dollars)

Age Group	1999 Level	2019 Level	1999-2019 Increase
All ages			
Total assets	\$234,600	\$477,000	2.0
Net worth	\$153,100	\$329,000	2.2
NW/Assets	65%	69%	
Age 45-54			
Total assets	\$368,000	\$725,500	2.0
Net worth	\$272,800	\$521,000	1.9
NW/Assets	74%	72%	
Age 55-64			
Total assets	\$440,000	\$821,500	1.9
Net worth	\$395,800	\$690,000	1.7
NW/Assets	90%	84%	
Age 65+			
Total assets	\$313,600	\$574,200	1.8
Net worth	\$302,500	\$543,200	1.8
NW/Assets	96%	95%	

Note: The increase is the ratio of the 2019 value over the 1999 value.

Source: Statistics Canada Table 11-10-0016-01.

Total Wealth and the Cost of Retirement Income

Table 1 shows total median private assets and net worth over the period from 1999 to 2019. The data show an increase in assets and net worth (assets minus debts) in the first two age groups, up to the 55-64 age range. They also show the continual increase in net worth relative to assets, which suggests that assets are less leveraged as people age.

For purposes of the following discussion, what is most important about Table 1 is that the median² real value of both the assets and net worth of Canadians approaching retirement age doubled from 1999 to 2019. By comparison, real median family incomes in 2019 were 1.2 times their level in 1999 (\$62,900 versus \$50,400). Therefore, from an earnings/income replacement perspective, the increase in wealth looks particularly helpful. It is quite reasonable to hope and expect that – all things being equal – such significant growth in the assets and net worth of Canadians approaching retirement age would result in a significant increase in future retirement incomes.³

However, thanks to the ever-changing nature of economic and social life, the “all things being equal” condition is seldom satisfied over time. One of the things that has changed over the period from 1999 to 2019 is the lump sum required to finance a dollar of secure retirement income over a complete retired life.⁴ The amount of money required increased in response to two factors:

- 1) Declining interest rates: According to Bank of Canada data, nominal long-term bond yields have dropped over the course of the 21st century from 6 percent to 2 percent.⁵
- 2) Increases in life expectancy at older ages: Over the period roughly from 1999 to 2019, female life expectancy at 65 has increased by about 1.5 years and male life expectancy by about 3.5 years (OCA 1997 and 2020).⁶

In the face of these two developments, Statistics Canada estimates that the lump sum of money required to provide a dollar of annual retirement income (known as the annuity factor) in 2019 is about 150 percent to 180

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- 2 In this E-Brief, I focus on the median in the wealth distribution. In online [Appendix 1](#), I present data on assets and net worth by wealth and income quintiles. The levels of assets, net worth and pension wealth increase as one moves up the wealth and income scales, as does the percent with pension wealth. The pattern of growth between 1999 and 2019 is broadly similar across wealth and income quintiles, although the changes are not uniform as one moves from one quintile to the next. The focus on median values is broadly representative of changes across wealth and income quintiles.
 - 3 Most of the data presented in the body of this E-Brief will be cross-sectional. In online [Appendix 2](#), I present synthetic cohort data for the birth cohort 1945 to 1954. Those data suggest that the cross-sectional data are roughly indicative of changes through time for that cohort.
 - 4 A secure income that will last over a complete retirement period will have a value at retirement age that can be approximated by a portfolio of government bonds of maturities matching expected retirement income payments and generating an income flow up to anticipated life expectancy at retirement age. As interest rates go down and life expectancy goes up, more money is needed at retirement to provide the secure income flow. Generating the targeted income flow at a lower lump-sum amount can be attempted by holding riskier assets with an expected rate of return greater than the interest rate on government bonds. Attempts to do so bring on the risk that poor investment returns will cause money to run out before the end of the retirement period. These basic relationships apply whether a person is contemplating the purchase of a life annuity from an insurance company or managing the rundown of assets on their own. Purchasing a life annuity transfers the longevity risks from the individual to the insurance company.
 - 5 See bankofcanada.ca/rates/interest-rates/Canadian-bonds.
 - 6 I refer to these as rough estimates because there are no actuarial valuation reports on Old Age Security (OAS) that provide data for 1999 and 2019. The Office of the Chief Actuary’s 4th actuarial report has an effective date of December 31, 1997, and includes estimated life expectancy at 65 for the year 2000. That estimate is what is cited above. The 16th report has an effective date of December 2018 and the life expectancy as of that date is cited above.

Table 2: Retirement Wealth: Levels, Growth, Percentage of Owners, 1999 and 2019

Age Group	1999 median value	2019 median value	1999/2019 growth	% with 1999	% with 2019	% of total assets (1999)	% of total assets (2019)
All ages							
Retirement wealth	\$73,200	\$158,700	2.2	70	72	29	29
Age 45-54							
Retirement wealth	\$124,400	\$231,600	1.9	79	78	29	28
Age 55-64							
Retirement wealth	\$239,700	\$354,500	1.5	70	72	40	37
Age 65+*							
Retirement wealth	\$167,500	\$237,000	1.4	66	74	36	31

* All the publicly available SFS data uses the open-ended 65+ category. A more refined breakdown of the 65+ population would be beneficial in view of important changes in recent decades like more late-life work and more older women with their own retirement pensions. But given the focus on people approaching retirement age, not too much is lost.

Note: Growth is the ratio of the 2019 median value over the 1999 median value.

Source: Statistics Canada Table 11-10-0016-01.

percent of its 1999 level. This offsets much of the potential gain in retirement incomes that might emerge from the increase in total assets and net worth.⁷

Looking ahead, it is reasonable to expect increases in interest rates, but probably not to the level of the 1990s – at least not in the near future. On the other hand, longevity will likely continue to increase, although Canada's Chief Actuary (OCA 2020 and 2021) suggests that the pace of increase will slow down.

The marked increase in total assets and net worth noted above has been driven in large measure by an increase in retirement wealth and the value of principal residences. The level and rate of growth of these types of wealth is documented in Tables 2 and 3. Together, these wealth sources account for about two-thirds of total assets. The portions of the population that hold these types of assets have remained relatively constant over the 1999-to-2019 period. The one possible exception to that generalization is the eight-percentage-point increase in the portion of the population 65+ with retirement wealth.

7 The Statistics Canada calculations are done on a termination basis for public- and private-sector plans with life-only and joint and survivor benefits with and without indexed benefits. Public sector plans are assumed to have an age 60 retirement age, 62 for private plans. The 1999 calculations assume no gender difference in mortality rates.

Table 3: Principal Residence (PR) Wealth: Levels, Growth, Percentage of Owners, 1999 and 2019

Age Group	1999 median value	2019 median value	1999/2019 growth	% with 1999	% with 2019	% of total assets (1999)	% of total assets (2019)
All ages							
PR Wealth	\$183,000	\$400,000	2.2	60	62	32	37
PR Mortgage	\$97,400	\$180,000	1.8	34	37	NA	NA
Age 45-54							
PR Wealth	\$197,600	\$425,000	2.2	72	72	31	36
PR Mortgage	\$83,400	\$180,000	2.2	42	52	NA	NA
Age 55-64							
PR Wealth	\$190,300	\$400,000	2.1	60	62	24	31
PR Mortgage	\$71,400	\$120,000	1.7	32	35	NA	NA
Age 65+							
PR Wealth	\$172,700	\$350,000	2.0	67	70	28	34
PR Mortgage	\$58,600	\$100,000	1.7	7	12	NA	NA

Note: Growth is the ratio of the 2019 median value over the 1999 median value.

Source: Statistics Canada Table 11-10-0016-01.

As important as these types of wealth are, each has characteristics that limit its ability to contribute to adequate retirement incomes.

Retirement Wealth

This section takes a closer look at retirement wealth by type.⁸ Table 4 provides data for 1999 and 2019 on median values of total retirement wealth and its key components: Workplace Pension Plan (WPP)⁹ and Registered

8 The retirement wealth that is documented here is privately administered retirement wealth. It does not include the wealth implicit in publicly administered programs like Old Age Security and the Canada and Quebec Pension Plans. People's implicit wealth in these programs is substantial. An OAS and full CPP retirement benefit would be worth about \$400,000 at age 65.

9 I use the term workplace pension plan to refer to pension plans at individual workplaces or groups of workplaces. It does not include plans for all employees like the Canada and Quebec Pension Plans. Statistics Canada often refers to these plans as employment pension plans and others refer to them as registered or occupational plans.

Table 4: Changes in Various Forms of Retirement Wealth, 1999 and 2019

	All ages	45-54	55-64	65+
Retirement wealth				
Median value 1999	\$73,200	\$124,400	\$239,700	\$167,500
Median value 2019	\$158,700	\$231,600	\$354,500	\$237,000
1999 to 2019 change	2.2	1.9	1.5	1.4
% with asset, 1999	70	79	70	66
% with asset, 2019	72	78	72	74
RRSPs				
Median value 1999	\$29,300	\$43,900	\$73,200	\$65,900
Median value 2019	\$50,000	\$70,000	\$100,000	\$100,000
1999 to 2019 change	1.7	1.6	1.4	1.5
% with asset, 1999	59	70	59	46
% with asset, 2019	59	66	59	58
WPPs				
Median value 1999	\$71,400	\$112,600	\$232,600	\$157,200
Median value 2019	\$164,900	\$223,100	\$371,200	\$217,100
1999 to 2019 change	2.3	2.0	1.6	1.4
% with asset, 1999	46	54	46	50
% with asset, 2019	50	57	50	53
TFSA*				
Median value 2012	\$11,200	\$11,200	\$14,500	\$16,800
Median value 2019	\$15,000	\$10,000	\$25,000	\$40,000
2012 to 2019 change	1.3	0.8	1.7	2.4
% with asset, 2012	34	31	34	43
% with asset, 2019	46	40	46	52

* TFSA were begun in 2009, and the first SFS that measures their presence was in 2012.

Note: Change from 1999 to 2019, and from 2012 to 2019, is calculated as the ratio of the final year value over the initial year.

Source: Statistics Canada Table 11-10-0016-01.

Retirement Savings Plan (RRSP)¹⁰ wealth, broken down by age group. Remember that these are median values for families who have these assets. Table 4 also identifies the portion of families who have these assets.

Table 4 also presents data on Tax Free Savings Accounts (TFSA), another wealth source. TFSAs are not specifically designed to provide retirement income but, as can be seen in the table, they play a growing role at all ages, especially older ages.

Readers will recognize that several types of financial wealth are omitted from this discussion. They are excluded either because relatively small portions of the population own them or because their median value is trivial. Examples of wealth types that are not widely held in 2019 are: mutual funds, 14 percent of families; stocks, 9 percent; and bonds, 3 percent. For their part, bank deposits provide an example of widespread holdings but of relatively insignificant amounts: 96 percent had bank deposits with a median value of \$9,400.

Three interesting observations stand out from Table 4. First, while retirement wealth has grown strongly over the years, it has grown a little less strongly for most age groups than net worth (Table 1).

Secondly, the median value of WPP wealth is relatively large. It is greater by a substantial amount than either median RRSP or TFSA wealth. However, participation in WPPs has grown only modestly in all age groups.

Readers may notice, too, that the rates of participation in WPPs reported in Table 4 are higher than in another widely cited source: Statistics Canada's Pension Plans in Canada (PPIC) database. Part of this disparity is explained by different units of analysis – families in the SFS versus individuals in the PPIC. Part is also explained by the fact that the SFS has a longitudinal dimension to it – it incorporates the value of pension participation in a previous plan, whereas the PPIC looks only at participation in plans to which a person currently belongs.

Thirdly, the use of TFSAs is exhibiting strong growth. By 2019, TFSAs had been in existence for only 10 years, whereas RRSPs had been around for more than 60 years. Yet, the gap in the participation rate was relatively small. Nearly half (46 percent) of all families had a TFSA compared to 59 percent with an RRSP.

To date, median asset accumulations in TFSAs are significant in relation to their contribution limits, but they are modest in relation to total retirement income needs. Their role in the RIS bears further scrutiny going forward.

Type of pension arrangement

Table 4 demonstrates the importance of WPP wealth. Here, we take stock of the fact that WPP wealth is not distributed equally by type of plan.

A few points need to be made about Table 5.

- Data are presented by the type of WPP wealth owned – defined benefit (DB), defined contribution (DC) or RRSP-only for both the entire income range and the range from \$30,000 to \$120,000, the span of most concern to policymakers.¹¹

10 Although I refer specifically to RRSPs, the statistical category includes: Registered Retirement Income Funds, Locked-in Retirement Accounts and Deferred Profit Share Plans.

11 For the purposes of this E-Brief, I accept the binary choice between DB and DC plans that is implicit in the SFS data. In Baldwin (2020), I argue that there are a variety of specific types of DB and DC plans, many of which combine elements of DB and DC. Clearly, pension design is more like a spectrum of choice rather than a binary one.

Table 5: Median Values and Percent with Asset in Different Types of Pension Plan

Family Income Before Tax	Type of Pension Asset	Median Value Age 45-64	% with Pension Asset
\$30-120 k	Presence of DB assets	\$230,900	24
\$30-120 k	Presence of DC assets	\$147,284	7
\$30-120 k	Presence of other WPP assets	\$269,846	6
\$30-120 k	Presence of RRSP assets only	\$57,700	37
\$30-120 k	No current WPP or RRSP	\$0	26
\$30-120 k	All types	\$50,000	
All income	Presence of DB assets	\$392,000	29
All income	Presence of DC assets	\$241,900	7
All income	Presence of other WPP assets	\$384,200	6
All income	Presence of RRSP assets only	\$74,000	31
All income	No current WPP or RRSP	\$0	26
All income	All types	\$96,000	

Source: SFS special tabulation for author.

- The lines labelled “presence of DB assets” include cases where both DB and DC wealth exists in a family. But the lines labelled “presence of DC assets” do not include DB wealth.
- The category “other WPP assets” refers to plans that are DB but require new entrants to participate in a DC component of the plan. Plans of this sort became a measurable part of the WPP landscape around 2009. It is reasonable to assume that a large part of the membership in these plans is still in their DB component.
- It is important to note that DB wealth is established by determining the lump-sum benefits’ value earned by DB plan members on a termination basis.¹² Lump-sum values calculated in this way are very sensitive to interest rate movements. In the current low-interest rate environment, the lump sum value of DB benefits increases. As a rough rule of thumb, values may vary by 15 percent to 20 percent based on a one-percentage-point movement in interest rates.

Three interesting observations stand out from Table 5.

First, in view of how the data are grouped, the difference between participation levels in DB and DC plans is much greater than could be inferred from other sources of data. This suggests a substantial number of families have both DB and DC participants.

12 The methodology used to calculate lump-sum values is fully explained in Cohen, Frenken and Maser (2001).

Second, there is a substantial gap in median WPP wealth in DB and DC plans – median DC wealth for families is 60 percent of the DB level. However, the gap is much smaller than was identified in Baldwin (2019).

Third, the picture for people who do not belong to a WPP is discouraging. The asset accumulations for families that own only RRSPs are too low to support a substantial lifetime retirement income that starts at age 65, and too many have neither WPPs nor RRSPs.

The source of the differential between DB and DC wealth and its change through time deserve attention that is beyond the scope of this E-Brief.

Wealth in Principal Residences

Owning a home at older ages has the obvious benefit of providing rent-free housing services. In addition, there is often psychological satisfaction that comes with being in familiar surroundings that may be a source of fond memories.

In thinking about housing wealth in a Canada-wide context, it is important to bear in mind that levels and rates of change in principal residence wealth vary greatly by geographic location. Median values of principal residences in Vancouver in 2019 were six times those in New Brunswick and have grown much faster since 1999. This issue is addressed a little more fully in online [Appendix 3](#).

In addition to providing rent-free housing, the question arises whether home ownership can also provide a cash income. This could be especially important for people whose retirement income is falling short of their needs and desires.

There are three ways that principal residence wealth might be turned into an income flow. One is through a home equity line of credit (HELOC), a second is through a reverse mortgage¹³ and the third is through downsizing.

Home Equity Lines of Credit

The SFS generates reliable data on the use of HELOC, and key data on their use are presented in Table 6. Two characteristics are striking.

First, given the annuity factors noted above, the median amounts of HELOC do not translate into significant income flows over a full retirement period. They could be helpful for limited periods and/or as a supplement to other income. But they are too low to provide a substantial income for a full retirement.

Second, they are not widely used – especially at older ages. In the age ranges 45-to-54 and 55-to-64, about 13 percent of families have HELOC. Furthermore, among families 65 and over, only 6.4 percent have a HELOC.

13 A HELOC is a line of credit that is secured by the equity that the borrower has in their home. A reverse mortgage is an arrangement between a homeowner and financial institution under which the homeowner receives a stream of payments and the financial institution acquires a mortgage interest in the borrower's home.

Reverse Mortgages

The 2019 SFS asked respondents if they had a reverse mortgage, but the response rate was too low to produce reliable data. However, the Canadian Financial Capability Survey (CFCS) did provide evidence. Just 1 percent of the retired respondents indicated that they received income from a reverse mortgage. (The same percent of the pre-retired respondents indicated that they anticipated receiving income from a reverse mortgage).

There is further circumstantial evidence suggesting the scanty use of reverse mortgages in Canada. The poor response rate to the SFS questions on reverse mortgages suggests low usage. And data from the Office of the Superintendent of Financial Institutions (OSFI) on aggregate reverse mortgages outstanding (OSFI 2021) reinforce that impression.

According to the OSFI, there were \$4 billion in outstanding reverse mortgages at the end of December 2019. This is more than double the \$1.8 billion three years earlier. Although this growth rate is impressive, it is still rather small compared to regular bank mortgages of \$1.3 trillion as of the end of 2019. Also, while \$4 billion is a large amount of money, it is the equivalent of only 20,000 reverse mortgages at \$200,000. Based on prevailing annuity factors, \$200,000 would provide only about \$10,000 per year for life starting at age 65. This could be a useful supplement to other sources of income but falls short of what is needed by people with mid-level earnings (roughly \$50,000) and above – in addition to OAS and CPP – to provide an income for a full retirement that will allow them to maintain their standard of living.

Based on the CFCS findings and the circumstantial evidence – especially the inability of the SFS to extract a reliable response rate – my sense is that reverse mortgages currently play a limited role as source of retirement income. But their recent growth suggests they are important to monitor.

Downsizing

There is also some circumstantial evidence on the extent of downsizing that is worth noting.

A somewhat dated study by Lin (2005) noted that seniors were less likely than younger people to change residence. Of those seniors who did move, just over 40 percent downsized, as measured by the number of bedrooms. It was also noted that changing residence was more common among renters than homeowners and was often linked to a change in household size. The study did not address the question of whether downsizing was a strategy for offsetting the prospect of retirement income falling short of people's targets.

Data from the 2016 census assembled by Canada Mortgage and Housing Corporation (CMHC 2021) confirm the lower rate of household change among the older versus the younger population. About one-third

Table 6: Home Equity Lines of Credit, by Age Median Values and Percentage With, 2019

All Ages	
Median value 45-54	\$30,000
% with	8.9
Ages 45-54	
Median value	\$35,000
% with	13.0
Age 55-64	
Median value	\$40,000
% with	13.4
Ages 65+	
Median value	\$40,000
% with	6.4
Source: Statistics Canada special tabulation for author.	

(36 percent) of all Canadians and about half that level for those over 65 moved over the previous five years. Moreover, rates of household change declined as people aged to about 8 percent for those 85 and over.

Finally, in 2016 the Canadian Public Pension Leadership Council undertook a survey of working-age Canadians on various aspects of pensions and retirement incomes (Baldwin 2017). One of the questions asked how respondents would adjust if they foresaw that their retirement income was likely to fall short of their desired level. The most common response was to delay retirement – overall, about half (49 percent) respondents said they would keep working. That response was highest among young respondents and decreased with age from two-thirds to one-third. The next most common response was to retire anyway, though there was notable regional variation in this response.

The third most common response, of about one-quarter of respondents, was to downsize. However, this response declined among those over 35 – from 34 percent at ages 25-34 to 17 percent at ages 55-64 and up to 20 percent at 65 and over. These responses to a hypothetical question about downsizing are higher than actual rates of house movement but still suggest that downsizing is not the first thought when it comes to coping with a shortage of retirement income.¹⁴

Discussion

Based on what we know about wealth accumulation of Canadians approaching retirement age, should we expect an improvement in retirement incomes in the future?

At a general level, one can't help but be impressed by the substantial increase in total assets, net worth and retirement wealth of age groups approaching retirement age. Even though much of this increase is offset by the rising cost (to date) of a dollar of retirement income, it is not totally offset. Thus, it is reasonable to believe that retirement incomes will improve for many from current levels that are certainly satisfactory – but not perfect.

It is equally clear, however, that there are subsets of the population for whom this generalization does not hold.

It is particularly disappointing to see that about one-quarter of people aged 45 to 64 have no private retirement assets. It is also disappointing to see that the median RRSP and TFSA wealth accumulations for people who are not participating in WPPs is low. It also appears that wealth accumulation in DC WPPs is less fulsome than in DB plans. These concerns are accentuated by the declining share of the labour force that participated in WPPs in recent decades and by the shift in WPP participation from DB to DC plans – trends that have been stronger in the private than in the public sector. These realities suggest that a minority of the future elderly may have trouble maintaining their standard of living in retirement. This conclusion is broadly consistent with more formal attempts to model future retirement incomes – assuming retirement at or around age 65 (Baldwin 2016).

Significant gaps in pension participation among employed Canadians overlap with a related problem – low levels of WPP participation in small businesses. This is a chronic problem that cannot be resolved at the company level. Many – if not most – small businesses are not in a position to manage a WPP effectively. They lack the scale to bring down costs and the financial expertise to effectively oversee administrative costs and investments.

14 The difference between the level of response to the survey question and data on actual house movement may be partly attributable to the fact that the survey respondents were anticipating their entire retirement period, whereas the data cited above reflect movements within a more limited time-frame.

Earlier analysis suggests that the absence of retirement wealth will be offset for many by delayed retirement¹⁵ (Ostrovsky and Schellenberg 2009). It is also noteworthy that Canadians have increased their wealth in principal residences but, for the most part, they have not converted that increase into an income flow. Reasons for not converting are worth looking into. For many – but I suspect not all – the non-use of these measures will include the possibility that there is no financial need to do so.^{16, 17}

The SFS data cited above are adequate to provide a general picture of the wealth accumulations that will impact future retirement incomes. But any policy initiative that might be contemplated to offset the effect of non-participation in WPPs would benefit from a further refinement in data with respect to age groups, income and employment status, and household type (single versus family). There are also a number of basic questions that come into play:

- What is the earnings range that is relevant to the issue? People with average annual lifetime wages and salaries up to about half the average in the economy may maintain their standard of living simply with public benefits from OAS, Guaranteed Income Supplement (GIS) and the CPP.¹⁸
- Would any new initiative be designed to complement WPPs by exempting from participation members in WPPs that meet certain standards like the proposed Ontario Retirement Pension Plan¹⁹ or partially displace WPPs by requiring participation by all members of WPPs as with the new CPP additional benefits?
- Over what time-frame would such a new initiative take affect and how would it be financed?
- How would any new initiative interact with other RIS components? Because of interactions with the GIS and provincial top-ups where they exist, low earners will get little or no benefit out of the new additional CPP benefits. (Baldwin and Shillington 2016, Milligan and Schirle 2016, and Vettese and MacDonald 2016).
- How would the need for, or the impact of any new initiative respond to demographic changes or changes in the labour market as well as in the financial and economic environment? Some aspects of this question do receive a good deal of attention, as in the discussion above on the impact of changing interest and mortality rates on annuity factors. Other aspects such as changing household composition and an increasing portion of the labour force being immigrants do not. (On the increasing share of the labour force made up of immigrants see Martel (2019), and on the increase in the portion of the middle-aged population made up of singles see Tang, Galbraith and Truong (2019)).

15 Hazel (2018) estimates that about half of employment at older ages is driven by necessity.

16 A similar tendency not to draw down home equity has also been noted in the US and has been attributed to people wanting the equity as a bequest, and not wanting to give up something they saved for throughout their adult lives while finding reverse mortgages somewhat confusing and risky. See also Center for Retirement Research (2021).

17 A forthcoming report from Fuse Consulting suggests that Canadians tend not to look at their housing as a source of retirement income.

18 Although it is now somewhat dated, a still useful insight into the saving effort needed to provide an adequate retirement income is provided by Dodge, Laurin and Busby (2010).

19 When federal/provincial agreement was reached on enhanced CPP benefits, the Ontario proposal that would have done a similar enhancement was dropped.

The data and analytics needed for any sensible policy response to the limited retirement wealth of a minority of the population is vitally important. At the same time, it would be naive to ignore the reality that philosophical preferences will play a role in perceptions of the seriousness of the problem and appropriate solutions to it.

Conclusion

Improvement in the median wealth accumulation of Canadians approaching retirement age is good news. But its ability to translate into higher retirement income will be tempered by the higher costs of a dollar of annuity income. In addition, it is a concern that a significant minority in the age groups approaching retirement have little or no retirement assets with which to add to their OAS and CPP incomes.

Any change in the RIS that is designed to address low levels of retirement wealth accumulation needs clear objectives. Such change needs to take account of interactions among components of the RIS and between components of the RIS and the personal income tax regime. It also needs to consider emerging social and economic trends. Ideally, RIS reforms would involve coordination within the federal government as well as with provincial and territorial governments. Incremental changes to components of the RIS that do not satisfy these analytical requirements run the risk of producing far less positive change than their proponents might wish and/or the risk of tying up resources addressing a problem that is diminishing over time. The limited benefit of recent CPP increases for low earners noted above provides an example of the former problem. Recently proposed increases in GIS and CPP survivor benefits outlined in recent federal ministerial mandate letters may end up exemplifying both problems.

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