Intelligence MEMOS

From: Joe Nunes

To: Canadians concerned about retirement

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Re: **Time for Boomers to Wake Up About Retirement**

That fifty is the new 40 may be a dated cliché, but the concept retains its important underlying meaning beyond babyboomer optimism.

As they continue to celebrate their generation's continued vigor, boomers have not been as eager to embrace the idea around retirement. Freedom 55 is outdated and Freedom 65 or 75 should be considered the norm. Everyone agrees that we are living longer, but many are slow to agree that we should be working longer.

This month, the Canadian Institute of Actuaries issued a detailed paper that included a deep dive into the target retirement ages in Canada's two flagship retirement income programs, the Canada/Quebec Pension Plans and Old Age Security. The paper also addresses targeted retirement ages under registered pension plans as well as RRSPs.

Its conclusion is quite simple. Canadians are living longer and are already starting to work longer than past generations. In addition, given the exodus of the baby boom from the workforce, there will be more pressure to keep Canadians working longer as each decade passes. At the same time, given the headwinds younger Canadians face in saving for retirement, such as later starts to careers and low rates of interest, Canadians need to continue to adjust their expectations about when they can reasonably expect to afford retirement.

The actuaries made three basic proposals:

1. Increase the target retirement age for CPP/QPP from age 65 to age 67 and increase the target benefit by 16.8 percent. Also, move early retirement from age 60 to 62 and postponed retirement from age 70 all the way to age 75.
2. Increase the target retirement age for OAS from age 65 to age 67 and increase the target benefit by 14.4 percent, along with moving the postponed retirement age from age 70 to age 75 (there is no early retirement under OAS).
3. Allow sponsors of registered pension plans to target retirement at age 67 rather than age 65 and allow members of pension plans and RRSP holders to defer retirement as late as age 75.

CPP/QPP and OAS are the first pillar of our retirement system. If we are to reasonably expect workers to work past age 65 (and many may well want to work past age 70) we need a system that builds around those expectations.

Since CPP/QPP was formed in the 1960s, life expectancy for Canadians at age 65 has increased by about 6 years. Seventy really is the new 65 – but pushing the target age that far in a short period would not be popular. The key to the process is to start the move and then review the target ages and benefits periodically to keep the system in tune with evolving workforce realities. Realistically, we probably should have started the move to age 67 decades ago. It's a proposal supported by C.D. Howe Institute research over the years, including a paper outlining how it would make retirement planning cheaper.

It is important to note that the proposal not only pushes back the target retirement age, but also increases the benefits paid, as if every worker voluntarily waited two more years for their payments to start.

There will be some workers, especially those in heavy labour, who may struggle to work longer. These issues could be solved through targeted programs such as the Guaranteed Income Supplement rather than preventing a modernization of the programs that serve all workers, current and future. Even so, the paper recommends a 10-year phase-in.

Canada's actuaries have started an important discussion – it is now time for Canadians to think about these questions and for our governments to find the courage to make changes which benefit future generations. It is often a tough sell to make changes in the short term that benefit all of us down the road, but that is exactly what we need to do.

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