Retirement system must reflect Canadians working longer: report

Martha Porado | March 24, 2020

While some may still dream of an early retirement, the world where freedom 55 seemed like a genuine possibility is no longer the world we live in today.

However, in some ways, the retirement systems established by Canada's government don't reflect the current reality — in order to achieve a financially healthy retirement, Canadians will need to save more, work longer or find a middle ground, according to a C.D. Howe Institute report by Joe Nunes, co-founder and executive chairman of Actuarial Solutions Inc.

"What's really happening is in the private sector; retirement before age 60 is going to be less and less prevalent and retirement after age 70 is going to more and more prevalent," he says. "But we've got a system that's designed for retirement from 55 to 70, versus a system that maybe should be for retirement between ages 60 and 75. There's been that five-year shift that the government hasn't reacted to."

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For example, if more employees will be working at 70 and older in the future, it doesn't make sense for them to stop contributing to, and begin to receive income from, tax-deferred saving vehicles at age 71. Nunes suggests raising that bar to age 75.

Further, given the recent market crash off the coronavirus' economic implications, it would be timely to allow people nearing 71, or who are already past that age, to rebuild their nest eggs, he adds. It would also provide current retirees with more options in a situation where they might otherwise be forced to sell assets at drastically lower valuations than just a few weeks ago, in order to meet mandatory minimum withdrawals from tax-deferred accounts.

Building on the increasing prevalence of a longer work life, Nunes also suggests that Canada Pension Plan and old-age security benefits allow for a deferral of income up to age 75, with appropriate increases.

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On the other end of the retirement spectrum, those who might wish to retire early are also hampered by the current system, he says. In order for retirement at age 65 to be a realistic possibility, Canadians must save more through defined contribution plans than they're currently able to. Nunes says the rate of savings allowed by the federal government should reflect the fact that retirement before age 65 requires a higher contribution limit over a compressed period.

He highlights the generous early retirement benefits provided by many public plans, noting that current policy makes that possibility far less possible in the private sector. "In public policy, you can say, 'Well, we don't want people to retire before age 60.' Well then, you ought to look at your own government plans and address that issue. If you want to say, 'It's a right for people to be able to retire at age 60,' then you ought to fix the defined contribution system, which is largely private sector, to allow people on that side to do it as well."

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Nunes notes these recommended changes would follow the original spirit of creating the tax-assisted retirement system in the 1990s, which was to encourage the goal of equal outcomes between the defined benefit and DC regimes.

The current system, he notes, isn't providing all Canadians with the same opportunities to make their own choices in the matter.