Middle Class Retirement Incomes in Canada:
Some Issues and Options

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QIISP - The Middle Class: Pressure Points and Public Policies
Overview

1. Concerns - Longevity risk and decision-making failures
2. Trends - Employer-based RPP
3. Policy options - CPP, Quebec VRSP, Ontario (?)
Senior poverty

Source: Schirle (2013)
Longevity risk

- Risk that mortality outcomes turn out differently than expected
Longevity risk

- Risk that mortality outcomes turn out differently than expected

You lived too long!
Evidence of Longevity Risk & Low Income?

Effect of age on GIS entry hazard

Source: Finnie, Gray and Zhang (2013)
Savings decisions

Some rationally choose not to save and rely on public pensions.

- Assume markets function well
- Consume now, use GIS later
Savings decisions

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- Assume markets function well
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Savings decision might not be optimal
- Market for annuities does not function well - adverse selection
- Decisions are complex, irreversible
- Systemic deviations from rational behaviour (see Baker & Milligan 2009)

Government intervention may be warranted.
Replacement Rates:

<table>
<thead>
<tr>
<th>Employer Pension?</th>
<th>Quintile 2</th>
<th>Quintile 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neither</td>
<td>41-58K</td>
<td>58-76K</td>
</tr>
<tr>
<td>Husband</td>
<td></td>
<td></td>
</tr>
</tbody>
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Source: Ostrovsky and Schellenberg (2010)
Replacement Rates:

<table>
<thead>
<tr>
<th>Employer Pension?</th>
<th>Percent within replacement rate thresholds</th>
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<tbody>
<tr>
<td>Neither</td>
<td>0%</td>
</tr>
<tr>
<td>Husband</td>
<td>40%</td>
</tr>
<tr>
<td>Neither</td>
<td>5%</td>
</tr>
<tr>
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Couples’ earnings
- Quintile 2: 41-58K
- Quintile 3: 58-76K

Source: Ostrovsky and Schellenberg (2010)
Replacement Rates:

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Source: Ostrovsky and Schellenberg (2010)
Replacement Rates:

- Less than 40
- 40-49
- 50-69

Percent within replacement rate thresholds

Employer Pension?
- Neither
- Husband

Couples’ earnings
- Quintile 2: 41-58K
- Quintile 3: 58-76K

Policy Target

Source: Ostrovsky and Schellenberg (2010)
Source: Milligan and Schirle (2014)
SLID - Reports Pension Plan with Job, Canada, Married, Age 35-54

Percent

Male
Female
Couple (1 or both)

1996
44
31
51

2010
41
38
55
Policy Options

Advantages to CPP

- Portability - provinces and employers
- Good insurance for longevity risk
- Commitment device
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Expanding CPP - options discussed in 2013

- PEI - 25-40-15% replacement rates
- Double YMPE
- Wolfson - 25-40%
- Big CPP 50%, YMPE unchanged

See Milligan and Schirle (2014) for details.
Policy Options - Quebec VRSP (RVER)

Voluntary Retirement Savings Plan
(Régime volontaire d’ épargne-retraite)

- July 1, 2014 (anyone sign up?)
- Phased in, larger employers (20+) December 2016
- Minimum default contribution - 4% in 2019
- Employer must offer plan, but employee can opt out

Does not cover longevity risk, own contributions can be withdrawn via transfer to RRSP.

Changing employers is not costless.
Policy Options - Ontario’s ORPP

Moving ahead

- CPP-type defined benefit, investment, contributions
- “Mandatory” for employees without a plan

Details TBA - employer/worker negotiations need to know
- Portability?
- Redistribution or tied to contributions?
- Cooperation with other provinces?
Overall - Case for expanding middle-class coverage

- Longevity risk and decision-making failures results in reduced standard of living
- Policy target - middle income, 50K+, no RPP
- Solution - defined benefit plans with mandatory participation
References


Because we tend to compare ourselves to the US:

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**Monthly Benefits CPP/OAS/GIS vs. Social Security**

- **SSI+SS Ret**
- **SS Ret**
- **CPP+OAS+GIS**
- **CPP+OAS**
- **CPP**

Uses 2014 benefit levels
Assume no other sources of income
Doesn’t account for taxes.

Source: Milligan (2014)