

# Middle Class Retirement Incomes in Canada: Some Issues and Options

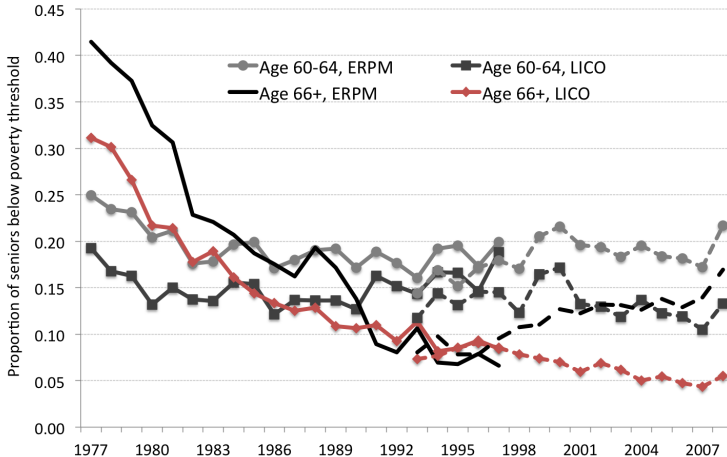
Tammy Schirle  
Department of Economics  
Wilfrid Laurier University

August 2014  
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

### Longevity risk

- Risk that mortality outcomes turn out differently than expected

## Longevity risk

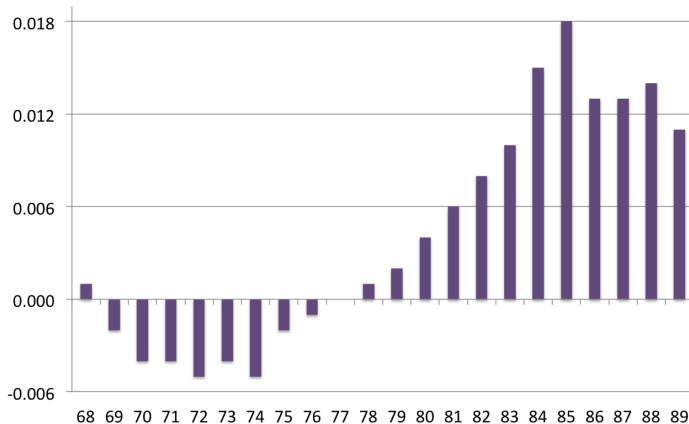
### Longevity risk

- 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

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

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

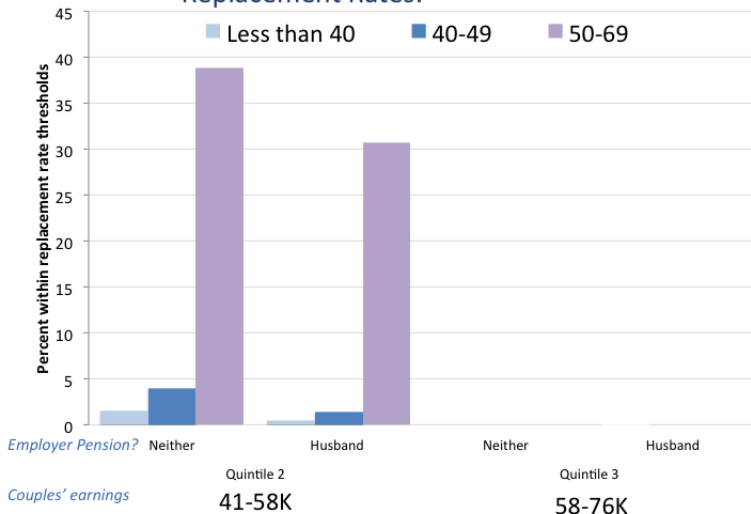
Savings decision might not be optimal

- 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.

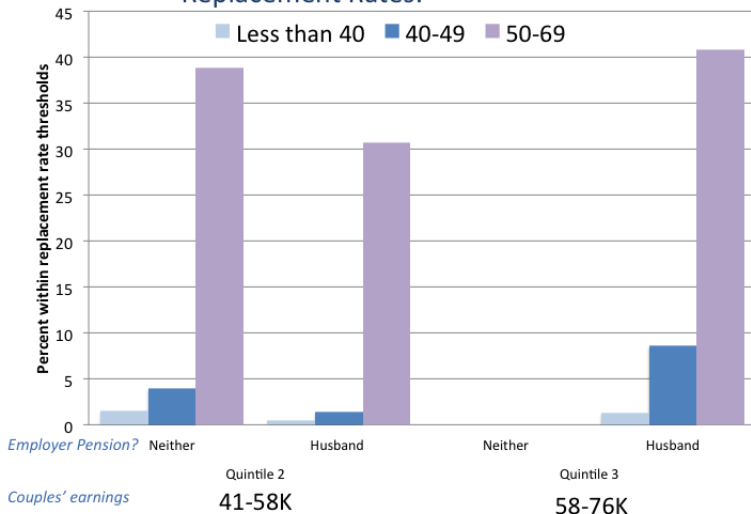


## Replacement Rates:



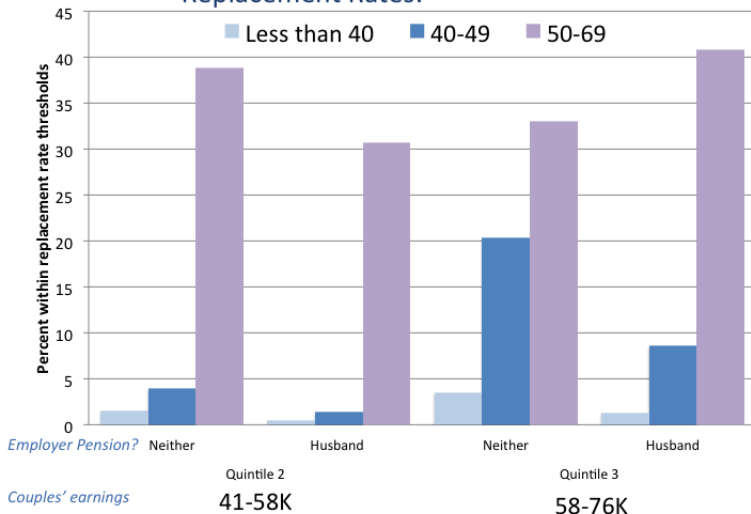
Source: Ostrovsky and Schellenberg (2010)

## Replacement Rates:



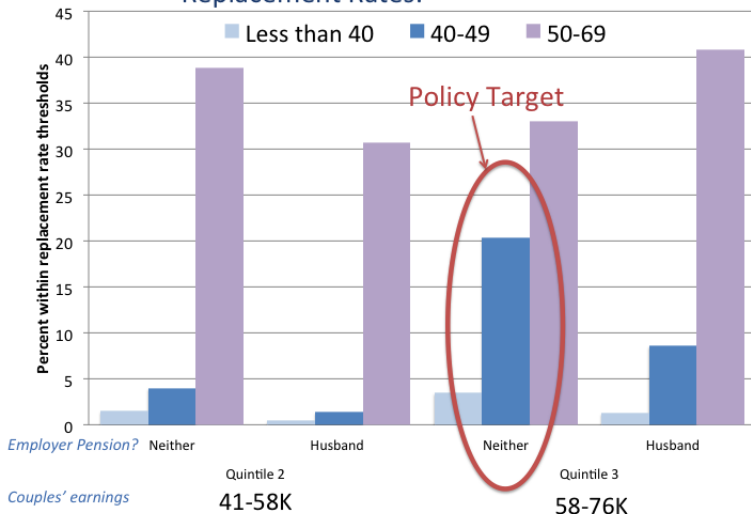
Source: Ostrovsky and Schellenberg (2010)

## Replacement Rates:

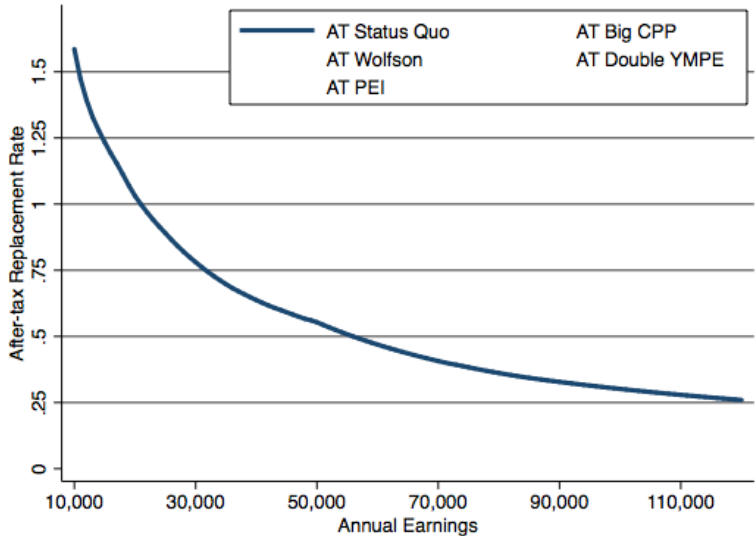


Source: Ostrovsky and Schellenberg (2010)

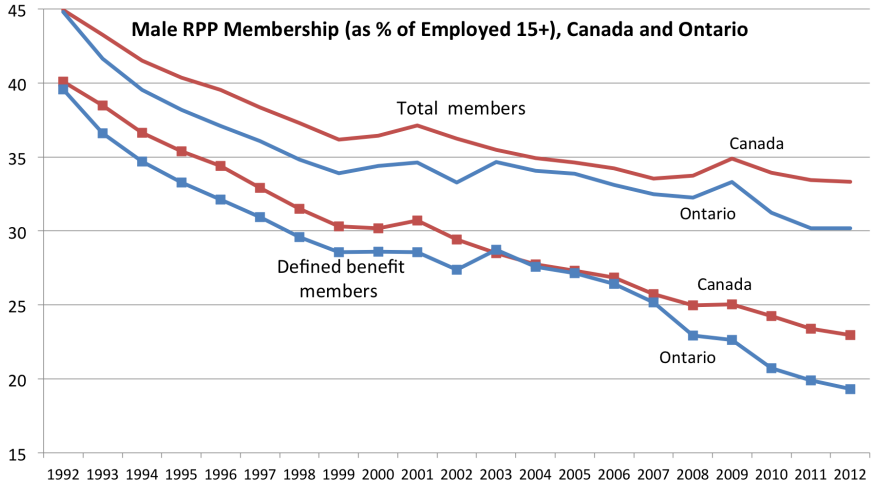
## Replacement Rates:

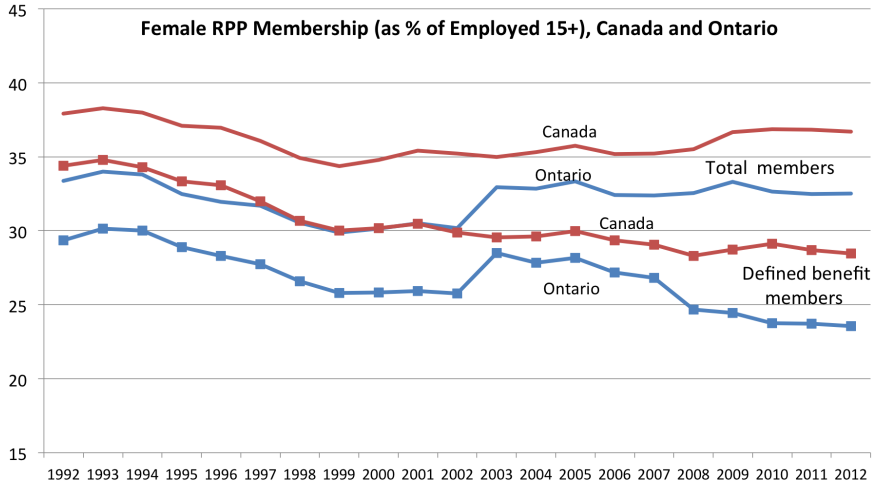


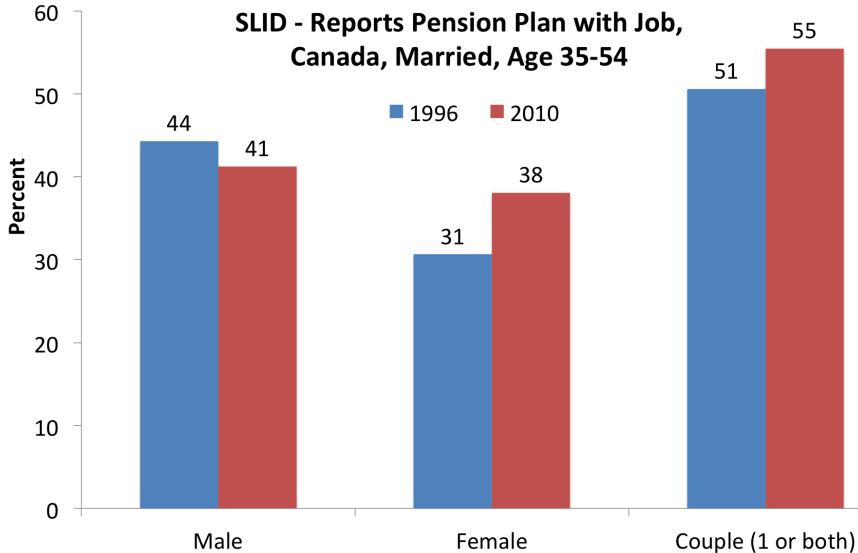
Source: Ostrovsky and Schellenberg (2010)



Source: Milligan and Schirle (2014)









## Policy Options

### Advantages to CPP

- Portability - provinces and employers
- Good insurance for longevity risk
- Commitment device

## Policy Options

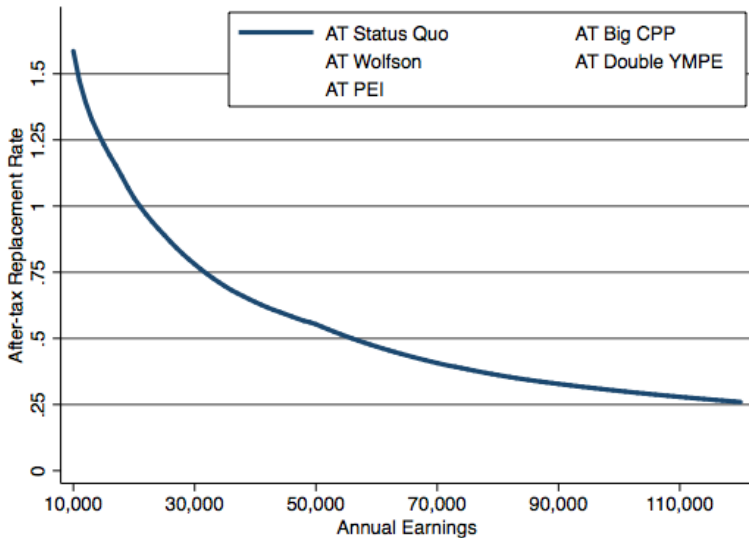
### Advantages to CPP

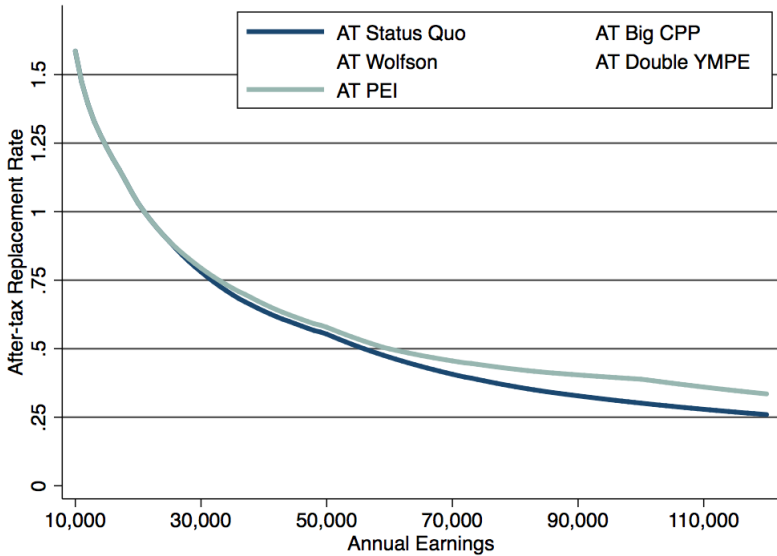
- Portability - provinces and employers
- Good insurance for longevity risk
- Commitment device

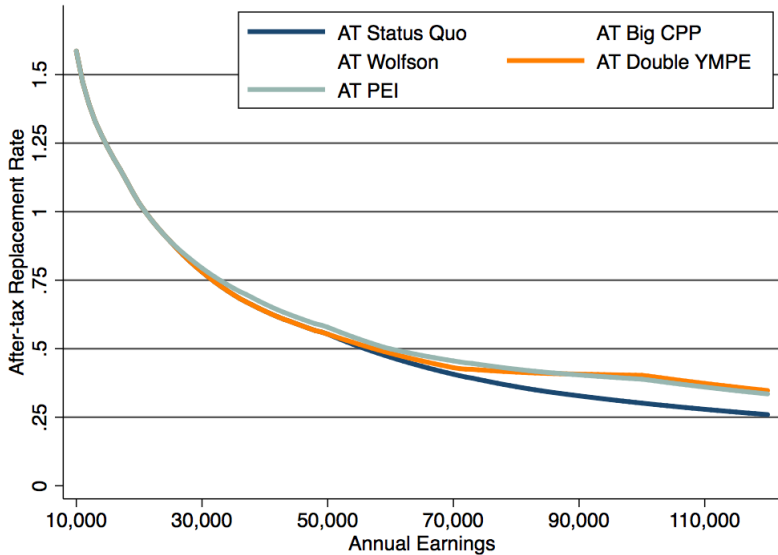
### Expanding CPP - options discussed in 2013

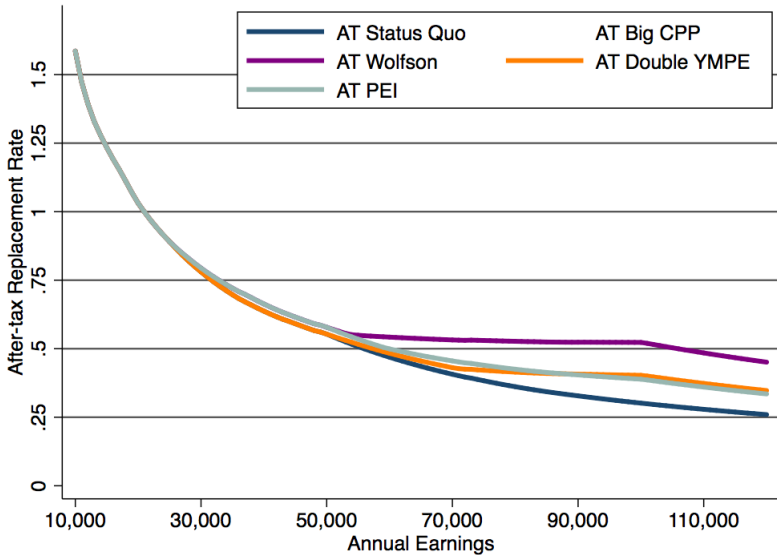
- PEI - 25-40-15% replacement rates
- Double YMPE
- Wolfson - 25-40%
- Big CPP 50%, YMPE unchanged

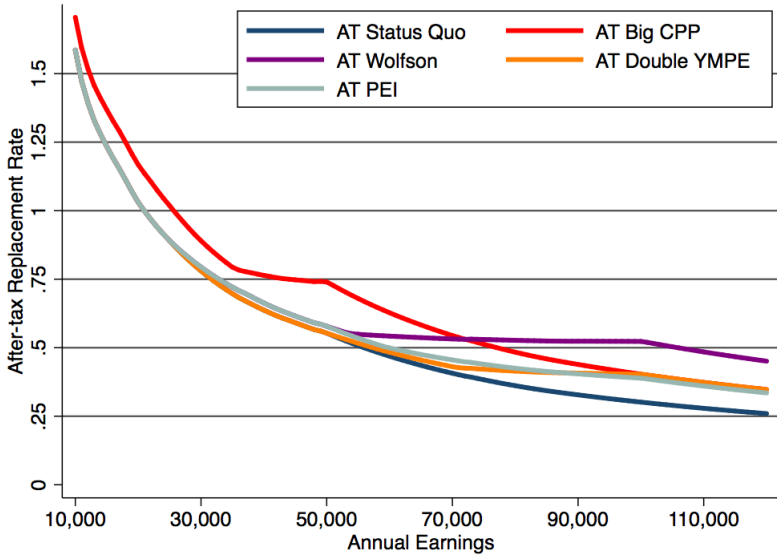
See Milligan and Schirle (2014) for details.











## 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?

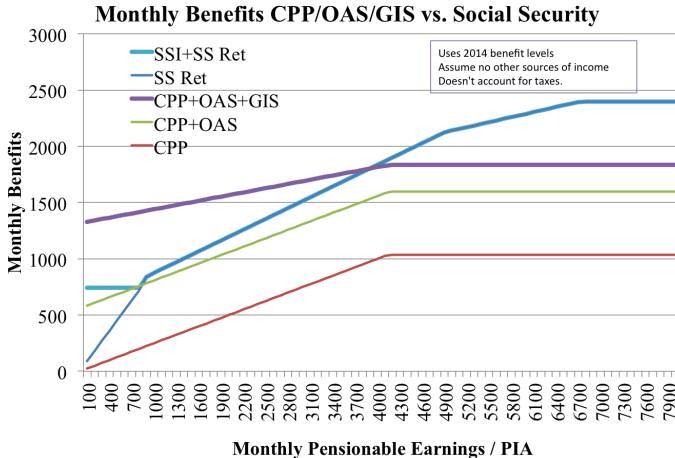
## Overall - Case for expanding middle-class coverage

- 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

- Baker, M. and K. Milligan. 2009. "Government and Retirement Incomes in Canada." Prepared for the Council of Federal, Provincial, and Territorial Finance Ministers. November 2009.
- R. Finnie, D. Gray and Y. Zhang. 2013 "The receipt of GIS status among Canadian seniors - incidence and dynamics." CLSRN Working Paper.
- Milligan, K. 2014. Presentation of Milligan and Wise, "How do public pensions affect retirement incomes and expenditures? Evidence over five decades from Canada" , August 2014. Mimeo
- Milligan, K. and T. Schirle. 2014. "Simulated Replacement Rates for CPP Reform Options." The School of Public Policy SPP Research Papers, Volume 7, Issue 7, March 2014.
- Nielson, N.L. 2012. "Annuities and your nest egg: reforms to promote optimal annuitization of retirement capital." C.D. Howe Commentary No. 358.
- Schirle, T. 2013. "Senior Poverty in Canada: A Decomposition Analysis." *Canadian Public Policy*, 39(4), 517-540.

## Because we tend to compare ourselves to the US:



Source: Milligan (2014)