



National Association  
of Federal Retirees

Association nationale  
des retraités fédéraux

# 2017 Federal Budget Priorities

*National Association of Federal Retirees*

The National Association of Federal Retirees (Federal Retirees) is the largest national advocacy organization representing active and retired members, as well as their partners and survivors, of the federal public service, Canadian Armed Forces, Royal Canadian Mounted Police (RCMP) and retired federally appointed judges.

With 180,000 members including over 60,000 veterans and their families, the Association has been advocating for improvements to the financial security, health and well-being of our members and all Canadians for more than 50 years.

In this brief, Federal Retirees has focused on measures to help Canadian seniors maximize their contributions to the country's economic growth and to our communities.

## **Retirement Income Security**

Retirees **remain** important to the economic well-being of the country, and retirement income security is a benefit for the individual retiree, their community and Canada. Retirees continue to make significant purchases including cars or new housing; many travel domestically, engage in other recreational pursuits and [volunteer \(over 1 billion hours by baby boomers and older adults in 2010\)](#), all of which are important to Canada's economy. [Income is the most predictive of the social determinants of health](#). Solid retirement income security brings better health status and outcomes which reduce demands on the health care system.

Fundamentally, a person's employment income funds both their working and retirement lives – either through workplace retirement savings vehicles, or personal savings, as well as dependency in whole or in part on government programs and supports paid from tax revenues.

Employment-based pension plans generally are part of a total compensation package, and are funded by contributions from both employers and employees. A pension is a commitment: employees provide their service and employers compensate them with deferred wages; employees and pensioners trust their employers to honour their promise. Employers should not be able to alter accrued defined benefits. This is a particular concern for older Canadians; retirees often have fewer options to add to their income.

Federal Retirees believes that in order to continue to make their positive contributions, Canadian retirees need a reliable source or sources of income – and that well-managed, disciplined, defined benefit plans are the best way of making retirement income secure and ensuring that Canadians can continue to contribute to the country's economic growth in retirement.

A [Boston Consulting Group \(BCG\) 2013 study](#) suggests that large defined benefit plans provide Canadians with one of the strongest retirement income systems in the world, and

also contribute significantly to national prosperity. [In another study](#), BCG found that benefits paid out to defined benefit plan members cycle back into the Canadian economy in the form of consumer spending and taxes, generating business growth and employment. Retirees with defined benefit plans are also less likely to rely on government assistance, such as the Guaranteed Income Supplement.

But secure and predictable income — or a lack of it — is a major issue for older Canadians. Statistics Canada estimates that 12% of senior families are considered low income, and that 28.5% of single seniors qualify as low income — that's 600,000 Canadian seniors living in poverty.

Tomorrow's seniors are at risk, too. Defined benefits are the most effective means of generating retirement security, but unfortunately, [workplace defined benefit pension coverage continues to decline](#). Private sector employees in particular have seen a significant drop in defined benefit pension coverage, from 87% in 1993 to 37% in 2011 (Aon-Hewitt, 2015). There has been a significant shift to defined contribution plans, and many employers have eliminated their pension plan altogether.

That leaves the majority of Canadians with personal savings and products like Tax-Free Savings Accounts and Registered Retirement Savings Plans (RRSPs) to fund retirement, but [most Canadians aren't saving enough](#). Squeezed by rising housing costs and stagnating wages, Canadians are only putting away 4% of disposable income, down from a peak 20% in 1982 – even with the introduction of Tax-Free Savings Accounts. On the RRSP front, Statistics Canada estimated in 2014 that Canadians had nearly a billion dollars in unused RRSP contribution room. That's 24 million Canadians who have not contributed the maximum amount. The average contribution is only \$3,000/year, significantly less than most will need in retirement.

RRSPs and similar plans have shortcomings that compound the retirement saving challenge. RRSPs and defined contribution plans do not have the same level of investment returns as defined benefit pension plans. They suffer from the corrosive effects of mutual fund fees, [some of the highest in the world](#), and early withdrawals, and they do not offer the same level of longevity risk and inflation protection as defined benefit pension plans. Hugh Mackenzie's 2014 study "[Risky Business](#)" concluded that a Canadian who contributes a regular percentage of their income to retirement savings (through RRSPs, TFSAs or PRPPs) over their lifetime would on average pay 2.07% annually in investment management fees, or 36% of their savings over a lifetime.

RRSPs eventually become Registered Retirement Income Funds (RRIFs), which have mandatory minimum withdrawals. Though withdrawal factors were changed in 2015, these rules have not tended to keep pace with increasing longevity. RRIF withdrawals are taxable and the forced withdrawal rates (which increase with age) can cause some to more quickly spend their nest-egg than would be ideal, leaving them in a position of financial hardship.

Canadians face serious challenges, and governments must take steps to improve the retirement security landscape. Retired Canadians need predictable income streams to supplement their personal savings. The proposed enhancement to the Canada Pension Plan will be a step in the right direction for many Canadians, but more needs to be done. We still do not know what measures will be implemented to ensure that low-income earners are not more heavily burdened by increased contributions for little gain, and whether this includes changes to the Guaranteed Income Supplement or to the Working Income Tax Benefit.

Addressing the inefficiencies and gaps in the retirement savings tools discussed above, which are often the only options for most Canadians, will improve retirement income security prospects for many. This will guarantee that Canadian seniors, today and in the future – the people who have built Canada – will be well-positioned to continue to contribute to our economy and our growth.

### **Seniors' Health and Care**

Just as secure and predictable income in retirement is crucial to retirees continuing to contribute meaningfully to Canada and its economy, so too are other [social determinants of health](#), including access to affordable housing and social safety nets such as health care. Seniors' access to affordable and appropriate housing, age-friendly communities, adequate home care services and gaps in social policies are becoming barriers to that.

Access to safe, accessible and affordable housing plays a significant role in predicting quality of life and longevity, and other factors. [Research has shown](#) that men who live in the wealthiest 20% of neighbourhoods in Canada live on average four years longer than those that lived in the poorest 20% of neighbourhoods. Canada is particularly challenged with seniors' housing in long-term care: high demand and low supply are leading to fewer spaces and increasing rents (up 5 percent from last year), and strained budgets for many seniors on fixed incomes. In some cases, seniors who need long-term care but are unable to pay for private care end up on long wait lists for publicly funded care, and may strain limited home care and hospital resources.

Addressing seniors care and health needs through policy and infrastructure investments will lead to better individual outcomes, better communities and a better Canada.

Countries where the social determinants of health are addressed through policy experience better health outcomes and [better economies](#). In [Sweden](#), for example, elder care services are part of social infrastructure and address the needs of persons needing the care, as well as families who provide care and paid workers. The care system is publicly funded and provided, accessible and affordable, universal and individualized, and there are fewer gaps in care. Additionally, addressing the social determinants of health through financial transfers

to social safety nets can [increase national spending on local goods, support national enterprises and improve the trade balance.](#)

In societies where these needs are not addressed, more families provide care and there tends to be a greater gender imbalance in the burden of care. [Women are disproportionately impacted by gaps in seniors' care](#): they are more likely to provide family care, more likely to face career impacts (such as lost opportunities and income) and to impact their employers due to family care demands. Since the 1970s, [Canadian women contribute significantly](#) to the labour force, but are today still responsible for balancing more child care, elder care and work.

More than six million people – 35% of Canada's workforce – provide unpaid, [informal elder care](#) while balancing job responsibilities. Most employed caregivers spend nine hours or less per week caring, but many spend 30 hours or more. The recipients of care are primarily seniors, and most caregivers are 45 or older and still in the workforce. Productivity is key to a solid economy; the [Conference Board of Canada](#) estimates the annual cost of lost productivity to be \$1.3 billion dollars to Canadian employers due to elder care needs that are not being addressed within the health care system.

Infrastructure investments for accessible, safe, affordable long-term care housing for seniors is needed, and will also add jobs and stimulate the economy. This need is becoming urgent: the [Canadian Health and Life Association estimates](#) that long term care costs will total \$1.2 trillion dollars over the next 35 years. Even with governments contributing \$595 billion in programs and funding, there will likely be a \$590 billion deficit. Coordinated efforts along with innovative thinking and engagement of other sectors in how to fund and structure long term care will be necessary to meet this challenge.

Engaging all orders of government is also essential. Investments in [age-friendly communities](#) contribute to better health outcomes for seniors, and provide environments integrated into our communities where seniors live safely, enjoy good health and stay involved.

Community-based models of senior care are efficient, effective and can help seniors continue to live independently in – and to contribute to – their communities. Unfortunately, much of our current health care system is based on an institutionalized model of delivering care. Independent living for seniors hinges not on medicine, but on affordable and appropriate shelter, retirement income security, accessible and barrier-free neighbourhoods, home care and long-term care.

The federal government has an opportunity to work with Canada's provinces to address these needs for seniors: within a new Health Accord. There is the potential to add a component of health transfers dedicated to home care, home maintenance services, and long-term care residences, with provinces required to demonstrate performance via measurable outcomes for ongoing funding. Money for these targeted transfers should not be taken from already-

allocated health transfers to provinces used to ensure adequate health care delivery for Canadians, but rather be a source of new funding for the provinces to address increasing gaps in eldercare. And although health care delivery is the responsibility of provinces, governments must work together to put seniors' health care solutions in place.

### **In closing**

Canada – from our national economy to our local communities – needs Canadians to have retirement income security and an integrated approach to address seniors' health care needs.

In preparing budgets for the coming years, the federal government has an opportunity to ensure retirement savings tools and programs are effective, efficient and realistic, and that health infrastructure and planning for seniors' health care needs are innovative and integrated. Canadians need access to the most effective tools, products and systems for their retirements – including retirement income security and the continued expansion of the Canada Pension Plan, affordable and appropriate housing, accessible and barrier-free neighbourhoods, and integrated home care and long-term care.

Canadian seniors are a diverse, vibrant group; and Canada still needs them. Seniors are still a force, with a great deal to bring to our communities and economy. Let's put the right solutions in place to ensure seniors – now and in the future – **remain** a force.