

## **Encourage Mature Workers' Participation in the Labour Market by Amending the Canada Pension Plan**

In 2008, for the first time ever, Canadian workers are more likely to be over 40 years of age than under according to the latest Statistics Canada census on labour. Due to steady economic growth, older workers are encouraged to stay in the job market longer. However, with the pending retirements of baby boomers continuing for the next 20 years, more must be done to retain mature workers in the workplace. The contributions of mature workers, their knowledge and experience are valued by employers and cannot be replaced easily. Mature workers have continuing capacity and present a tremendous asset in today's workplace. In the next ten years the provincial government estimates 140,000 workers will retire in Alberta alone. To respond to the aging workforce and the anticipated shortfall of workers to replace them, it is critical that government and business consider incentives to encouraging their ongoing participation in the labour market.

The benefits of productivity, increased income, organizational continuity, and social and economic stability are readily apparent for business, government and the individual. Employment increased by an estimated 17,000 for people aged 55 and over in December 2007. Older workers had above-average employment growth in 2007 (+7.7%), with higher gains for older women (+9.4%) than men (+6.4%). In Alberta, in 2007 nearly 30% of 65-69 year olds work at least part time. (Source: Statistics Canada, Table 282-0002, Labour Force Survey). This is up 57% over the 2000 employment rate of 19% for the same age group. For people aged 55 and older, the employment rate has increased 30% in the same 7 year period to 41%. At 63.7%, Alberta has the second highest retirement age in Canada.

The federal government is commended for providing tax relief by allowing pension income splitting for pensioners, beginning in the 2007 tax year; for providing tax relief by increasing the Age Credit amount by \$1,000 (from \$4,066 to \$5,066) effective in the 2006 tax year; by increasing the maximum amount of eligible pension income that can be claimed under the Pension Income Credit from \$1,000 to \$2,000; and raising the Guaranteed Income Supplement earned income exemption to \$3,500 from \$500, putting over \$1 billion in tax savings annually back in the hands of seniors. However more can be done.

Canada Pension Plan (CPP), Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits are key components of Canada's public pension program. About 8.7 million family units, or 71% of the total of 12.2 million, had some form of pension assets in 1999, whether they were employer pension plans, RRSPs or RRIFs. Many workers over the age of 40 consider their pension implications in deciding to change jobs, retire, or continue working part-time or full-time as they approach retirement years and beyond.

The Federal Government undertakes various initiatives to encourage Canadians to apply for retirement benefits, including for example in 2006 mailing 268,000 CPP information packages to Canadians approaching the age of 65. Changes in these public pension programs should be made to assure Canadians that the benefits they are entitled to will remain should they choose to balance more flexible work and pension benefits.

Canada Pension Plan retirement pension normally starts the month after a person's 65th birthday. The pension can start as early as at the age of 60 or any time up to the age of 70, although monthly payments are smaller or larger depending on the number of months either way from age 65. Individuals are encouraged to apply six months before

they want their pension to begin because delays in applying could result in lost benefits. Benefits cannot be stopped and started and an individual is penalized with payback if they cancel benefits, which is only allowed in the first 6 months.

CPP requires those under age 65 to quit their job (or cease earning more than \$863 for two months) in order to apply for CPP. This discourages continuous engagement in the workforce and is also incongruous with the fact that, after a break in employment earnings, and once they start receiving CPP pension, they can work as much as they want without affecting their pension amount.

However, once receiving CPP benefits, neither employees nor employers contribute to the CPP. Once eligible, therefore, many workers have no further pension incentive to work because their lifetime benefits do not increase. Currently, there is no financial benefit in delaying your pension after the age of 70. Allowing equal RRSP contributions while receiving CPP benefits would provide incentive to work and increase future financial stability. An additional factor encouraging early retirement is the lack of survivor benefits paid to a spouse who collects the maximum CPP. In order not to miss out on contributions, oftentimes, a couple retires at the same time. Changes can alleviate the disincentive to work for those who are under age 65 and desire to work.

Restrictions on the public pension also prevent phased retirement, a popular method of retiring that is available to Canadians aged 55 and up with private pension plans beginning in 2008. In 2007, the Office of the Superintendent of Financial Institutions Canada reported 1,332 private pension plans with 582,000 members. Phased retirement pays retirement benefits while an employee continues to work, likely reduced hours while also accruing pension credits. Similar flexibility should be extended to the public CPP program.

Guaranteed Income Supplement is a monthly benefit for low-income individuals receiving Old Age Security. The GIS stops being paid at \$31,056. Earned income is clawed-back at 50 cents on the dollar. This claw back encourages seniors to limit earned income by restricting hours of work, and works as a disincentive for those who wish to be more actively engaged in the workforce.

Old Age Security is not influenced by employment history. It is available to most Canadians 65 years of age or older who have lived in Canada for at least 10 years. Pensioners with an individual net income above \$64,718 must repay part or all of the maximum Old Age Security pension amount. The repayment amounts are normally deducted from their monthly payments before they are issued. The full OAS pension is eliminated when a pensioner's net income is \$105,043 or above. Old Age Security benefit rates are reviewed in January, April, July and October to reflect increases in the cost of living as measured by the Consumer Price Index.

Lastly, to target relief to low- and middle-income seniors, the maximum Age Amount credit is available only to those seniors with net incomes below \$31,524. Thereafter, it is reduced and the credit is fully phased out when net income reaches \$66,692. This is effectively an additional tax on seniors' taxable incomes.

## **Recommendations**

That the federal government:

1. Continue to review the net income thresholds for retirement and pension income and in so doing, apply more than one measure such as a combined analysis using the Average Industrial Wage Index in addition to the Consumer Price Index. The desired outcome of this review should be to increase the annual individual net

income thresholds that can be earned before repayment of Old Age Security pension amounts so that cumulative changes in the cost of living do not negatively affect low income Canadians.

2. Increase the earning exemption for GIS benefits and reduce the percent claw-back from 50 cents on the dollar.
3. Maintain the full Age Credit amount for net income below \$66,692.
4. Eliminate the requirement to start and stop CPP applications within 6 months by allowing individuals who choose to keep working after they've applied for benefits to collect CPP payments without penalty. Allow these working individuals to roll funds into an RRSP until age 71, harmonized with existing RRIF requirements.
5. Allow individuals aged 60 and older to freeze their benefit level at their maximum level, irrespective of whether or not they have dropped out low-contributing years, when choosing to defer receiving CPP benefits indefinitely so that any reduced earned income, as a result of part-time work for example, does not decrease their future benefit level.
6. Establish a top up amount for the surviving spouse when both individuals are receiving maximum CPP payments.