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Future Canadian retirees won't have it as good as parents

by Malcolm Hamilton

Most Canadians expect to retire before age 65 and to live as comfortably after retirement as before. Their optimism flows not from a careful study of the mathematics of retirement but from the experience of recently retired Canadians who have been fortunate.

- Since the mid-1970s, retirement savings plans earned high real rates of return, regardless of how the money was invested.
- Employers, their pensions funds brimming with surplus, ran frequent and generous early retirement programs.
- The simple act of purchasing a home has, for this generation, been extraordinarily profitable. Mortgage rates were low in the 1950s and 1960s, and house prices rose dramatically in the 1970s and 1980s. In Canada, this appreciation was tax-free.
- This is the first and last generation to get a free ride from Canada's social security system. Medicare and the Canada/Quebec Pension Plans (C/QPP), both introduced in the mid-1960s, have delivered generous benefits to anyone who retired after 1975, at little or no cost to them.

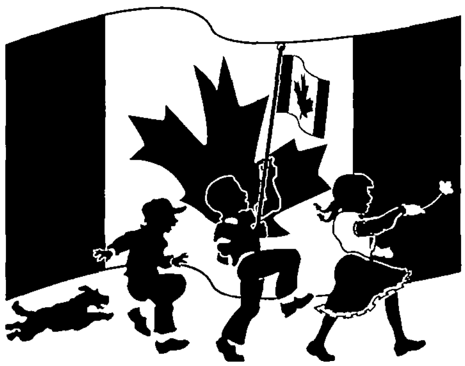
Working Canadians expect to follow in their parents' footsteps. On the surface, their expectations are not unreasonable. Canada's social security system is in place and is mature and arguably affordable, given today's demographics. Canadians save respectable amounts for retirement.

A recent study showed that working Canadians between the ages of 25 and 65, earning between $20,000 and $80,000, had the following characteristics:

- 56% participated in a pension plan.
- 77% participated in a pension plan or contributed to a Registered Retirement Savings Plan.
- The average savings rate was 10.1% of income, more than the estimated amount required to retire with an adequate income at age 65.

Unfortunately, buried beneath the aggregates are some troubling statistics:

- Canada's retirement savings are quite unevenly distributed. Employees in the public sector, where generous pension plans are the norm, save close to 16% of their pay. Employees in the private sector save a more modest 7% of their pay.



- About 50% of the assets in retirement savings plans have been lent to public sector borrowers. Some of this has been spent paying people not to work and businesses not to compete.
- Social security costs will escalate dramatically in the first third of the next century, as the number of senior citizens doubles.

Canadians' hopes for a long and comfortable retirement rest on a foundation of government debt. Eighty-five percent of the liabilities of Canada's combined social security and retirement savings systems are backed by claims on the earnings of future generations. Only 15% are supported by "real" assets (i.e., assets other than public sector debt), and this is encumbered by the foreign borrowings of Canadian governments.

A healthy retirement savings system requires a healthy economy, solvent governments, a sound social security system, and adequate savings. With the exception of public sector employees, Canadians must save more and their governments must borrow less, spend less, and spend differently (less on well-to-do seniors and more on the health and education of young children).

The age at which Canadians qualify for C/QPP benefits, Old-Age Security, and the Guaranteed Income Supplement must be gradually increased, and middle-aged Canadians must be forewarned of this so they can adjust their savings habits and retirement expectations.

Neither Canadians nor their governments are ready to tackle the aging issue. I fear that the problem will be ignored, then denied, and finally studied until it is too late.

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