

Key findings

- The relative old-age poverty rate increased sharply from a low level in the mid-1990s. It is now slightly lower the OECD average.
- Despite the planned increase to 11.9% by 2023, Canada will have among the lowest mandatory pension contribution rates in the OECD, where the average is equal to 18.4%.
- The normal retirement age will increase on average in the OECD from about 64 in 2018 to about 66 for those entering the labour market today. In Canada, it will remain stable at 65 based on current legislation. In 2019, to encourage people with low income to work at older ages, the financial incentives to combine earnings and the GIS were enhanced.
- Net replacement rates from mandatory schemes are low at 58% and 51% for low- and average-wage full-career workers against an OECD average of 68% and 59%, respectively. Hence, contributing voluntarily is crucial to raise retirement income in Canada. The impact of short career breaks is much smaller than in most countries.
- In Canada, the self-employed contribute in a similar way as employees to the CPP and their pension contribution rate is equal to the total (employee + employer) contribution rate. Hence, for a similar income, the self-employed will have the same pension level after a full-career as employees, while in the OECD it will be 21% lower on average.

Relatively low replacement rates from mandatory pensions, but good coverage of the self-employed

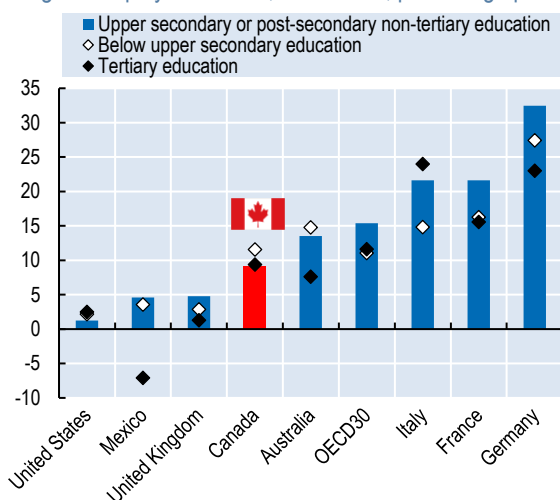
People older than 65 have on average an income that is 10% lower than for the total population. This compares to 13% lower on average in the OECD. Beyond averages, one in eight people older than 65 have income lower than half the median disposable income, a slightly lower relative old-age poverty rate than in the OECD, and much lower than in the United States which has about one in four. The relative old-age poverty rate has increased sharply from a very low level in the mid-1990s.

The pace of ageing will be somewhat slower in Canada than in the OECD on average, yet the number of people older than 65 years for every 100 people of working age (20-64) is projected to increase

sharply from 30 in 2020 to 45 in 2050. To prevent longer lives from weakening pension benefits and/or pension finances, working longer will be critical. A remarkable recent development is the increase in the employment rate among the 55-64 age group, by 15 and 18 percentage points in Canada and the OECD on average, respectively, since 2000. Health improvements, higher education levels of the labour force and past pension reforms have been the main drivers. This employment-rate increase has been recorded for all education groups, and actually in Canada the improvement has been slightly greater among the least educated older workers. In 2019, to encourage people with low income to work at older ages, the financial incentives to combine earnings, including from self-employment, and the targeted scheme (GIS) were enhanced: the GIS earnings exemption was increased from CAD 3,500 to CAD 5,000. Belgium and Denmark have also enhanced the work incentives of older workers.

Growth of employment rates of older workers has been strong

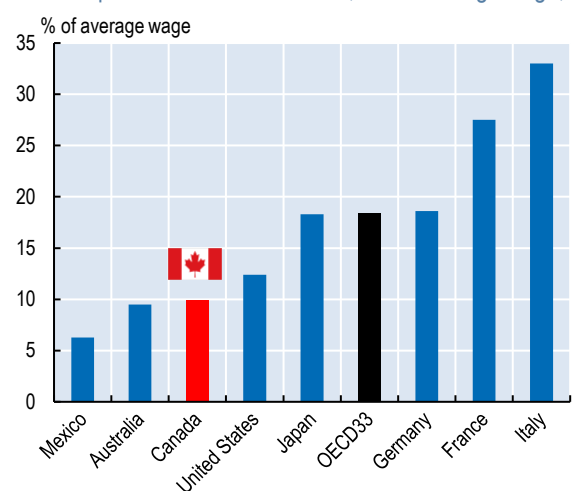
Change in employment rates, 2000-2017, percentage points



Source: [Figure 1.9].

Contributions in Canada are low compared to most countries

Total effective pension contribution rates, at the average wage, 2018



Source: [Figure 1.15].

Raising the retirement age in line with gains in life expectancy is one factor that could contribute to extend this trend. On average, in the OECD, the normal retirement age will increase from 63.8 to 65.9 years in about 2060 based on legislated measures. Six countries have introduced a retirement-age link with life expectancy. Canada is among half of OECD countries where the retirement age will be stable. It will remain at 65 after the 2016 decision to cancel the planned increase to 67 by 2029. Over the last two years, other countries backtracked on, delayed or suspended previously decided measures to link pension levels or retirement ages to life expectancy, including Italy, the Netherlands, the Slovak Republic and Spain.

Mandatory pension contribution rates are low in Canada. The total contribution rate to the defined benefit Canada Pension Plan (CPP) scheme is equal to 9.9% and despite the planned increase to 11.9% by 2023, it will remain well below the current OECD average of 18.4%. While the Canadian pension system seems to be well balanced financially in the long term, such a low contribution rate can only finance low replacement rates.

A full-career worker at the average wage entering the labour market in 2018 will have a net replacement rate of 51%, much lower than the OECD average of 59%. For half-average-wage earners it is 58% in Canada against 68% in the OECD. The price-indexation of first-tier components (GIS and the basic pension, OAS) is projected to lower replacement rates over time. Voluntarily contribution is therefore crucial, but coverage has been declining. Contributing to private pensions for the full career or from age 45 would raise the future replacement rate at the average wage from 51% to 83% and 63%, respectively.

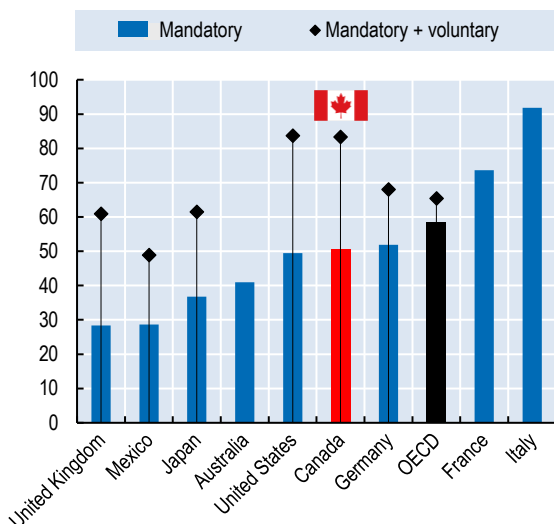
Interrupted careers might become more common with the potential development of non-standard forms of work – self-employment, part-time and temporary work. In Canada, the

impact of short career breaks is much smaller than in most countries. This is because only 39 years are needed to get a full pension from the CPP and because the GIS can offset some income losses. For a career break of five years due to unemployment, the impact will be to reduce pension entitlement compared to the full-career case by 2% at the average wage, against 6% on average in the OECD.

Non-standard forms of work represent more than one-third of total employment in both Canada and the OECD. In half of the countries with earmarked pension contributions, including Canada, the self-employed pay a contribution rate that is equal to the total contribution rate of employees, i.e. the sum of employee's and employer's. Canada and the United States are actually among 10 OECD countries where the self-employed contribute in a similar way as employees to mandatory pensions. While on average in the OECD, the self-employed will have a pension from mandatory schemes equal to 79% of that of employees with a similar earning over a full career, it is almost 100% in Canada.

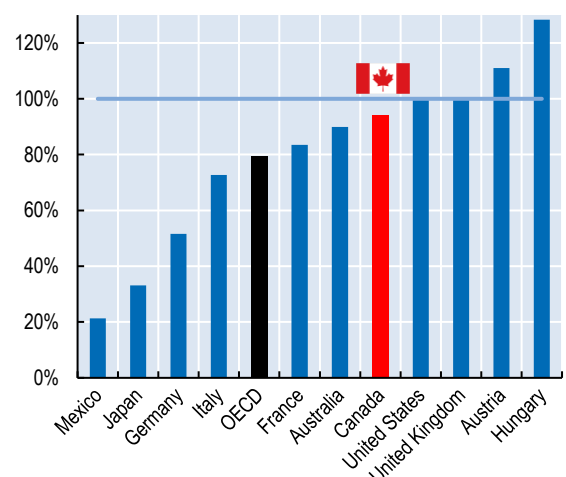
In Canada, as in New Zealand and the United Kingdom, the self-employed can voluntarily contribute to occupational schemes by contracting directly with a plan provider (Pooled Registered Pension Plans). In terms of voluntary pensions, that matter in particular for temporary workers, Canada, Denmark, the United Kingdom and the United States among others allow transfers of entitlements from voluntary occupational to personal pension schemes. In Canada, such transfers are only possible to locked-in personal plans, from which the funds cannot normally be used for any purpose other than to provide the individual with a retirement pension. In the OECD, such transfers are less common than transferring occupational schemes to other employer schemes - or not to close them, even though no additional contributions are made - which is possible in most countries.

Canada has low projected replacement rates
Net pension replacement rates by earnings level, full career



Source: [Figure 1.13].

Self-employed workers will have high relative pensions
Theoretical pensions of a self-employed worker relative to an employee both with taxable income equal to the average net wage before taxes, individuals with a full career from age 22 in 2018



Source: [Figure 2.13].