



The Next 150
FORTIFYING
RETIREMENT FOR THE FUTURE

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Plenary III

Fast Forward to 2050: Retirement Redefined

Speakers:

Yves Carrière, *Université de Montreal*

Bernard Morency, *Gestion Bernard Morency*

Moderator:

Louis-Bernard Désilets, *Normandin Beaudry*

Demography, labour force and retirement Canada in the 21st Century

Yves Carrière

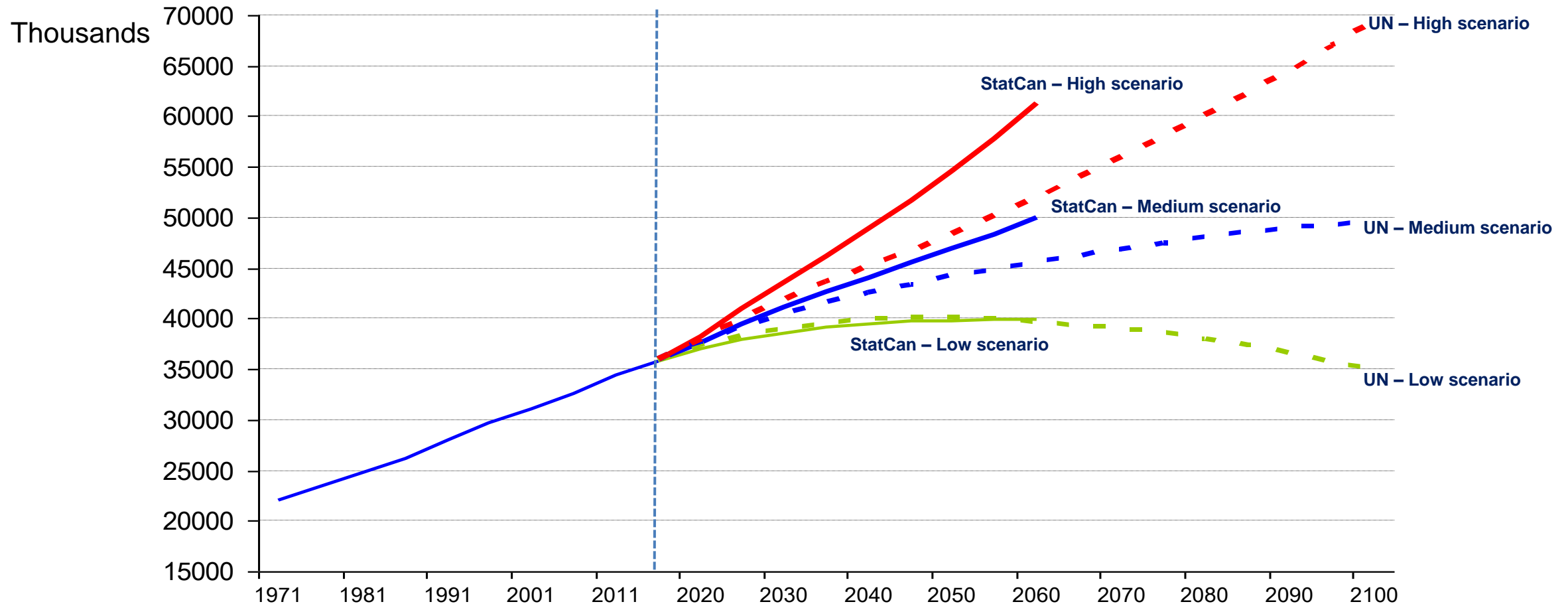
Professor

Department of Demography

Université de Montréal

DEMOGRAPHY – The population is not expected to decline, but a lot of uncertainty

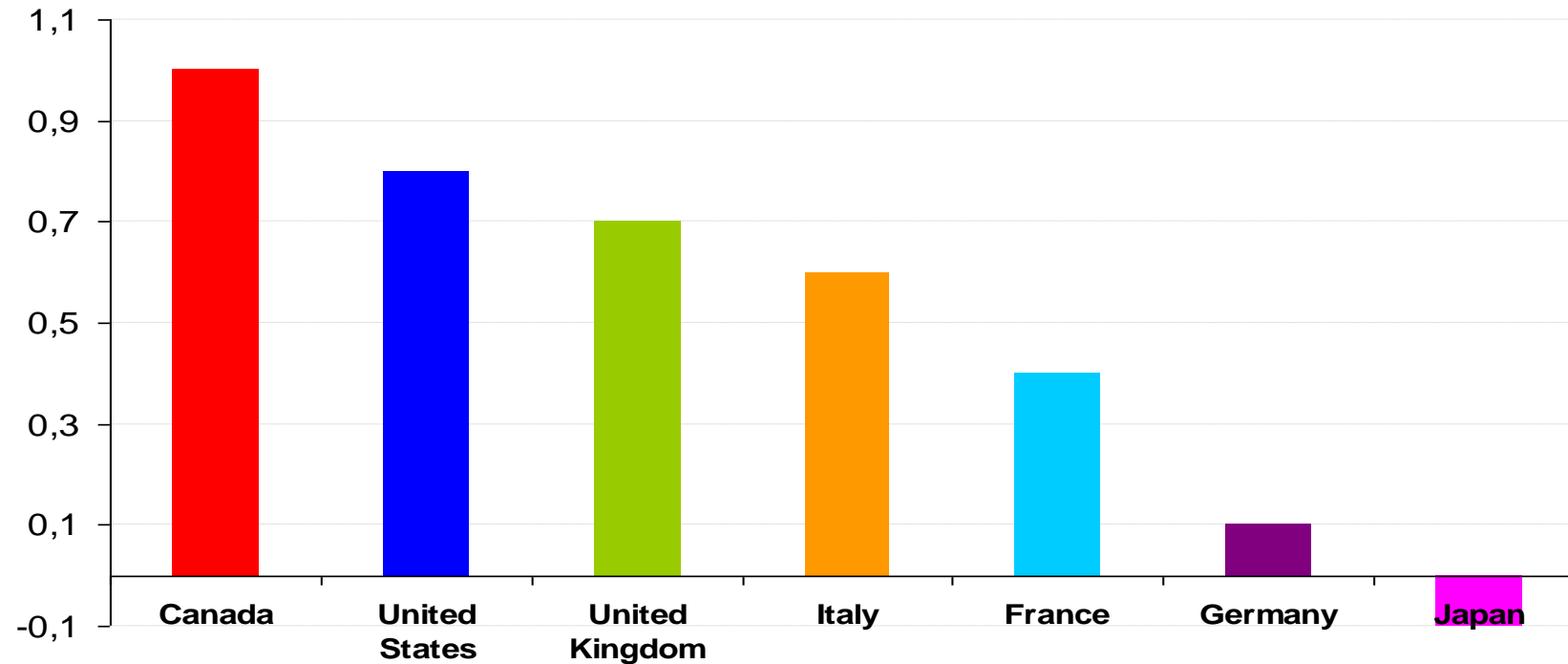
Observed and projected population of Canada, 1971-2100



Source: Statistics Canada. Table 052-0005, Projected population, by projection scenario, age and sex, as of July 1, Canada, provinces and territories; United Nations, World Population Prospects: The 2015 Revision

DEMOGRAPHY – A population that is growing faster than in any G7 countries

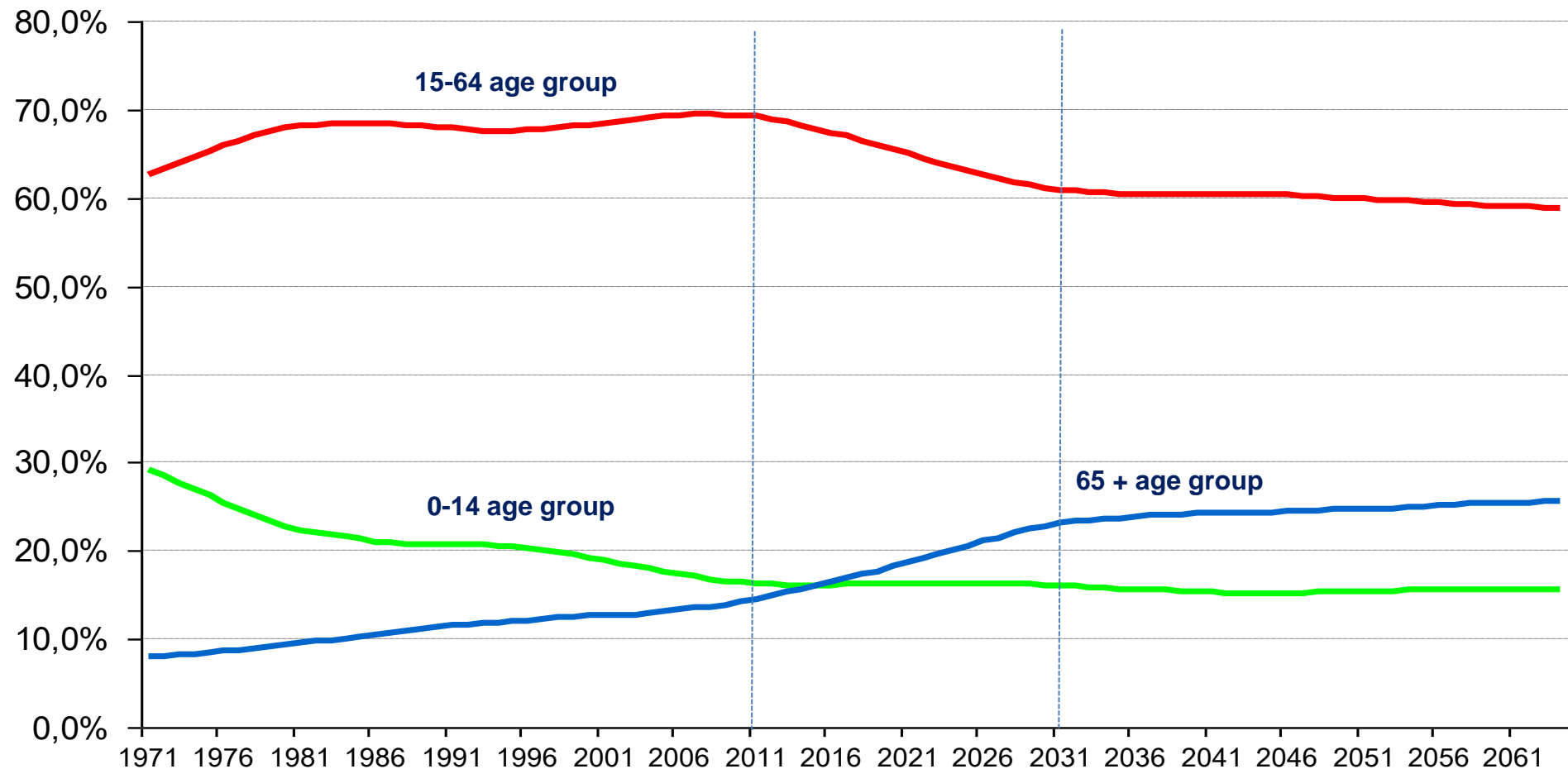
Average annual population growth rate among G7 countries, 2011 to 2016



Source: Statistics Canada. <https://www150.statcan.gc.ca/n1/daily-quotidien/170208/cg-a001-eng.htm>

DEMOGRAPHY – As you all know, an ageing population

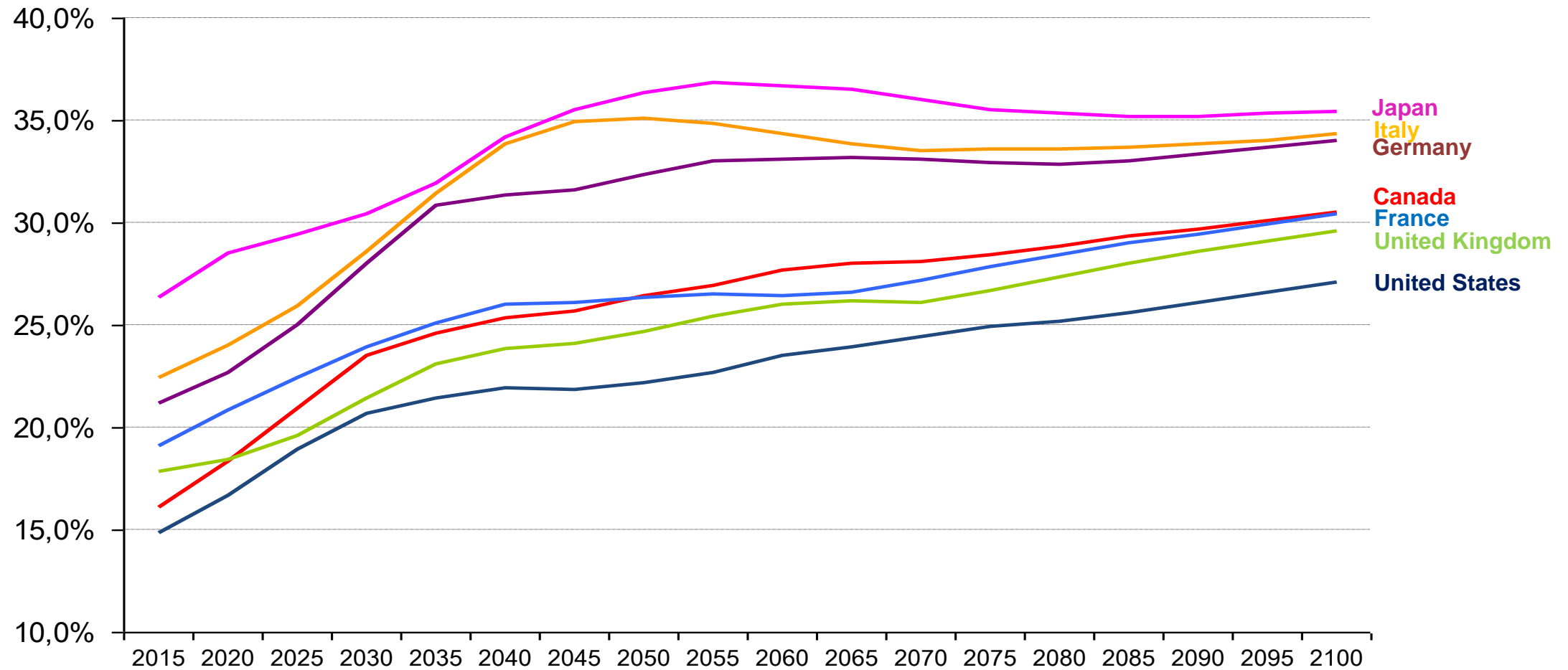
Distribution of the Canadian population by age group, 1971-2063



Source: Statistics Canada. Table 052-0005, Projected population, by projection scenario, age and sex, as of July 1, Canada, provinces and territories.

DEMOGRAPHY – Among the G7, not the oldest...not the youngest

Proportion of the population aged 65 and over, G7 countries, 2015-2100



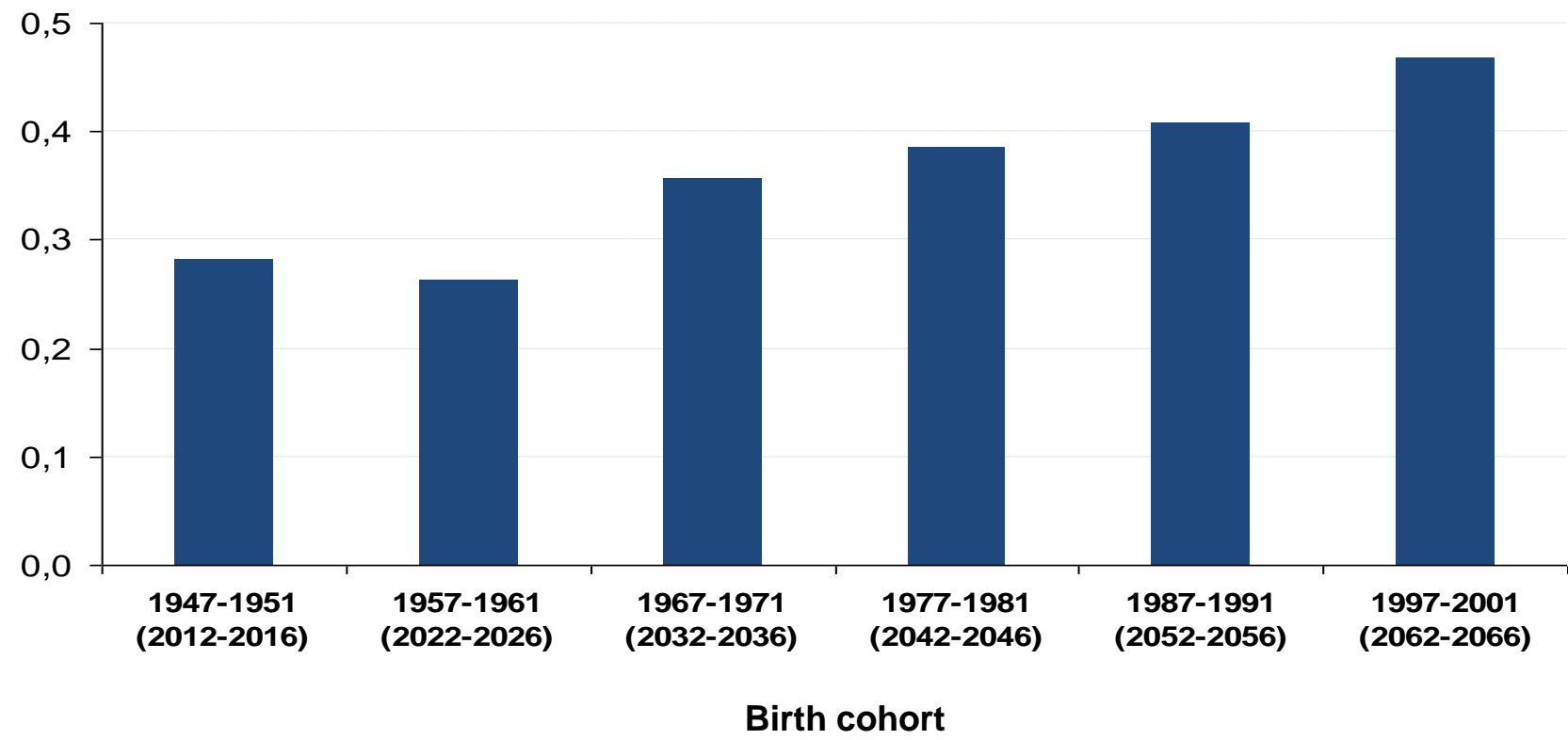
Source: United Nations, World Population Prospects: The 2015 Revision, Medium scenario

DEMOGRAPHY – The impact of extending longevity could very important

- Demographers have different views on the future trend of life expectancy and longevity.
- Some argue that life expectancy at birth will reach 100 years for the cohort born in 2000.
- Much longer life expectancy than presently projected could have a significant impact on the number and proportion of seniors, but also on the total population and the solvency of the retirement income system.

DEMOGRAPHY – An older population, but also a much more diverse population

Projected proportion of foreign-born people, various cohorts at age 65



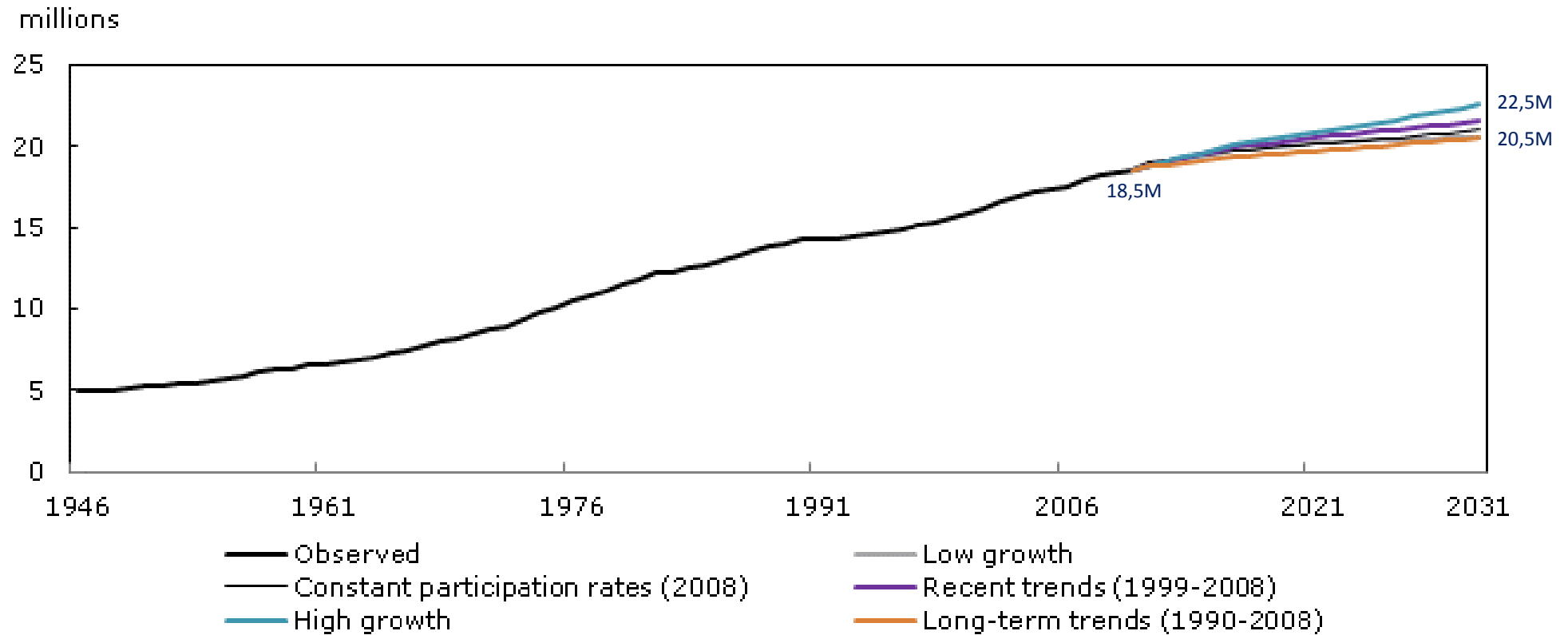
Source: Carrière, Y., L. Martel, J. Légaré et J.-F. Picard (2016). « The contribution of immigration to the size and ethnocultural diversity of future cohorts of seniors ». *Insights on Canadian Society* catalogue 75-006, March 9 2016, Statistics Canada, 12p.

FROM DEMOGRAPHY TO LABOUR FORCE AND RETIREMENT

- Of course, demographic trends have a strong impact on the composition of the labour force.
- As the population was ageing, effective retirement age has been increasing.
- Trends affecting retirement age seem to indicate that effective retirement age will still be increasing in the near future.

LABOUR FORCE – No labour force decline being projected for Canada

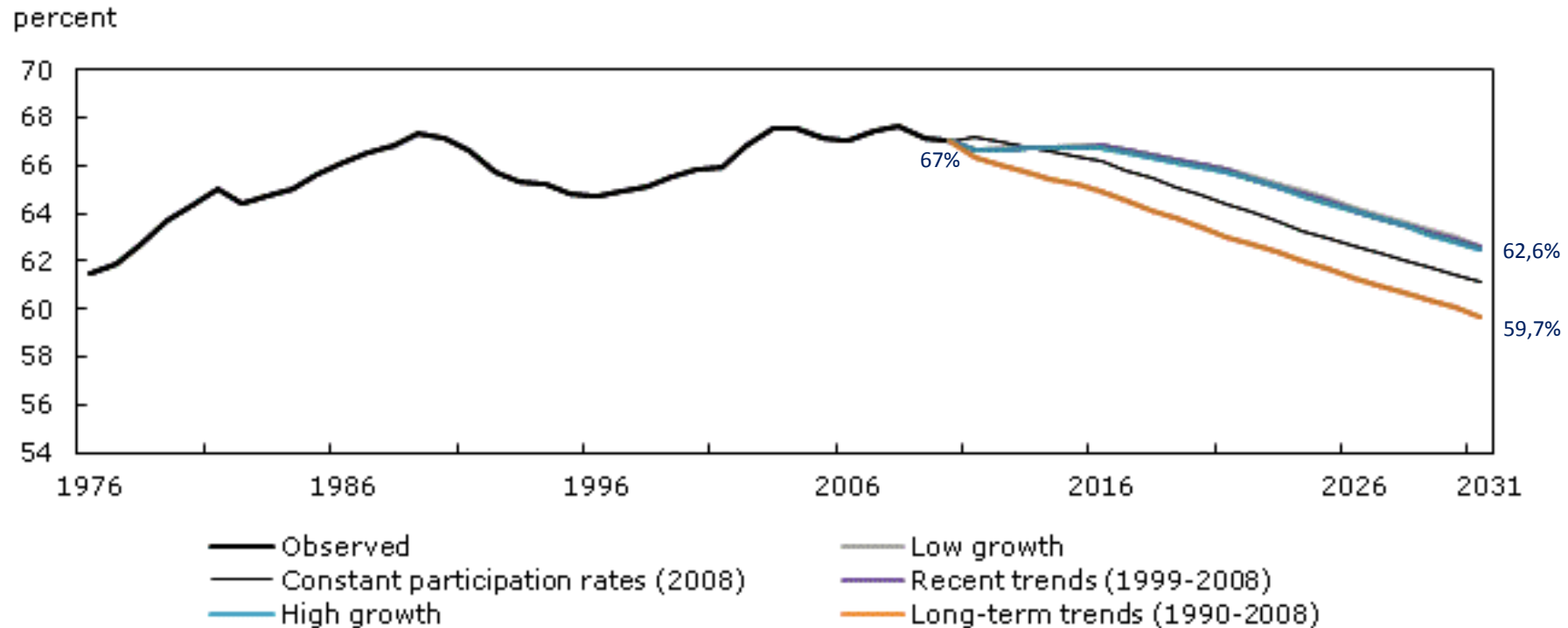
Observed (1946 to 2010) and projected (2011 to 2031) size of the labour force according to five scenarios, Canada



Source: Martel, L. et al. (2011). « Projected trends to 2031 for the Canadian labour force, *Canadian Economic Observer*, catalogue 11-010, Statistics Canada

LABOUR FORCE – But total labour force participation rate will decline

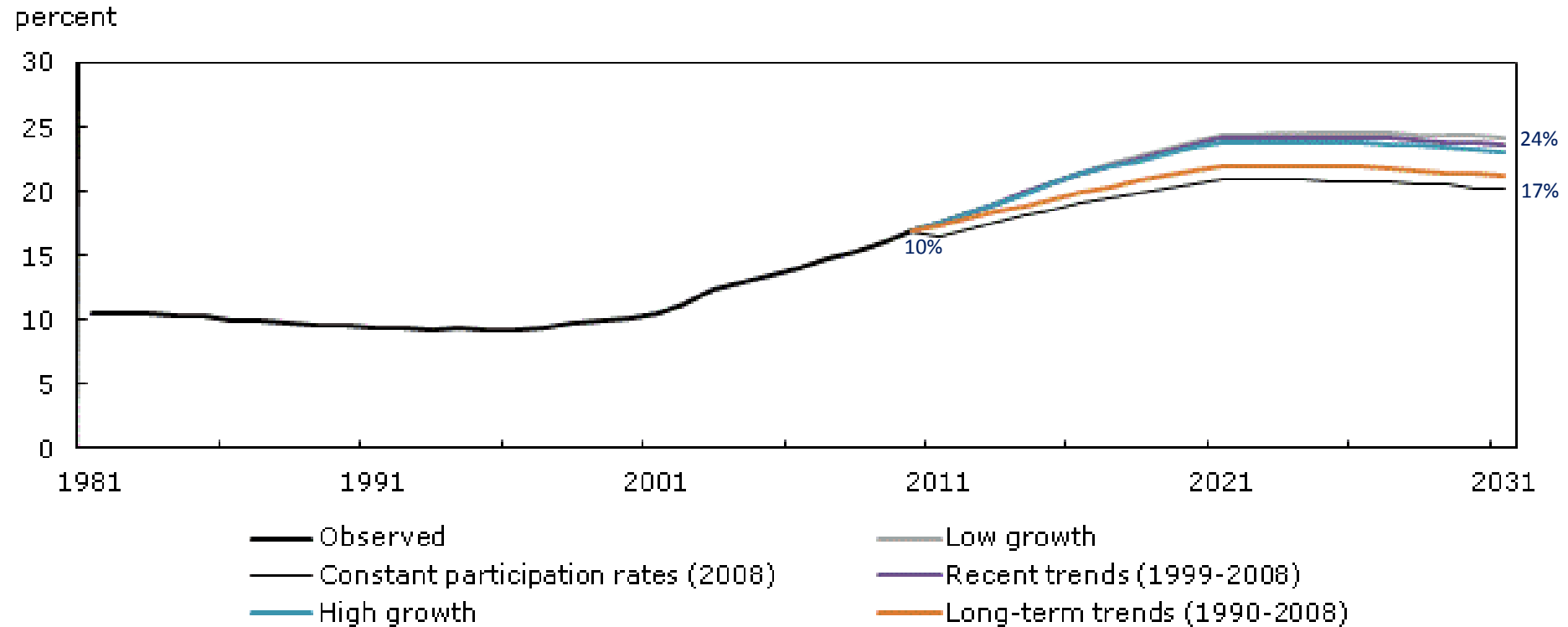
Observed (1981 to 2010) and projected (2011 to 2031) overall participation rate according to five scenarios, Canada



Source: Martel, L. et al. (2011). « Projected trends to 2031 for the Canadian labour force, *Canadian Economic Observer*, catalogue 11-010, Statistics Canada

LABOUR FORCE – ...and the work force will be older

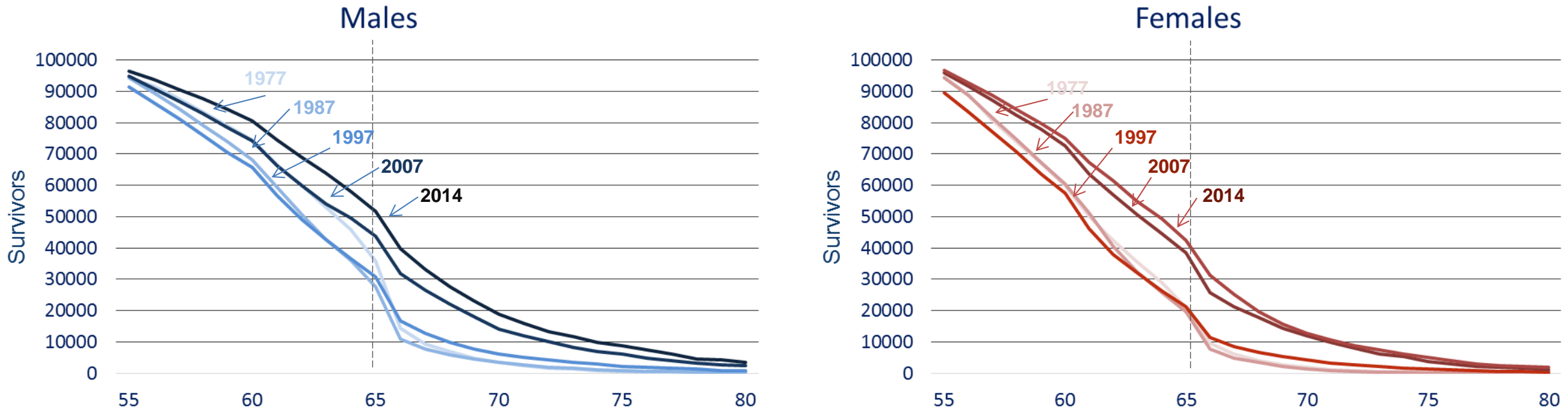
Observed (1981 to 2010) and projected (2011 to 2031) percentage of labour force aged 55 years and over according to five scenarios, Canada



Source: Martel, L. et al. (2011). « Projected trends to 2031 for the Canadian labour force, *Canadian Economic Observer*, catalogue 11-010, Statistics Canada

RETIREMENT – Behaviours have changed dramatically

**Number of non retirees at each age, by gender, Canada 1977-2014
(conditional to be working at age 50; includes voluntary and involuntary retirements)**

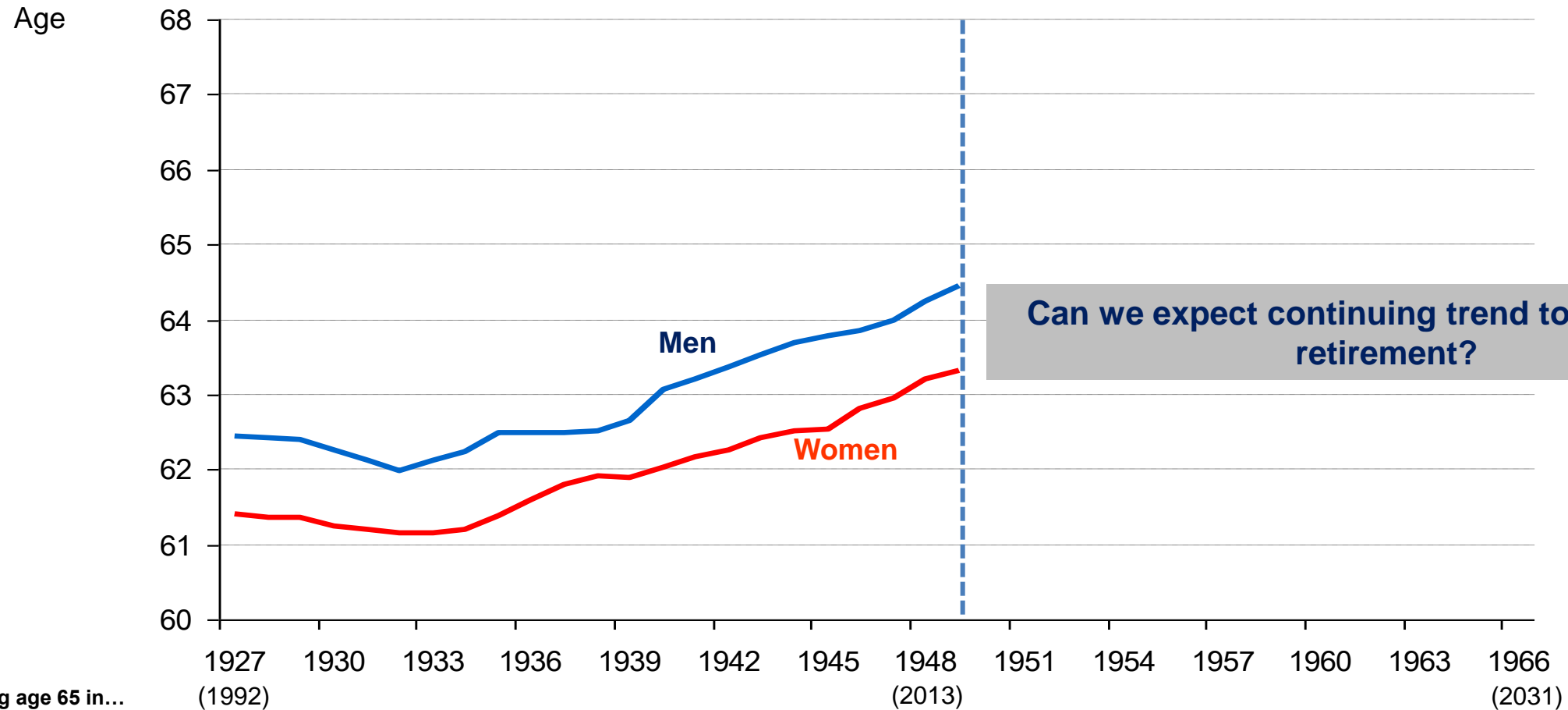


- The increase in the number of non retirees at a given age is the result of changing behaviours towards retirement, but also of lower mortality, more so among men than among women.

Source: Special tabulations from Statistics Canada using Labour Force Survey; Projections from the authors

RETIREMENT – The result is a significant increase in effective retirement age

Effective retirement age for 1927-1949 cohorts, by gender, Canada

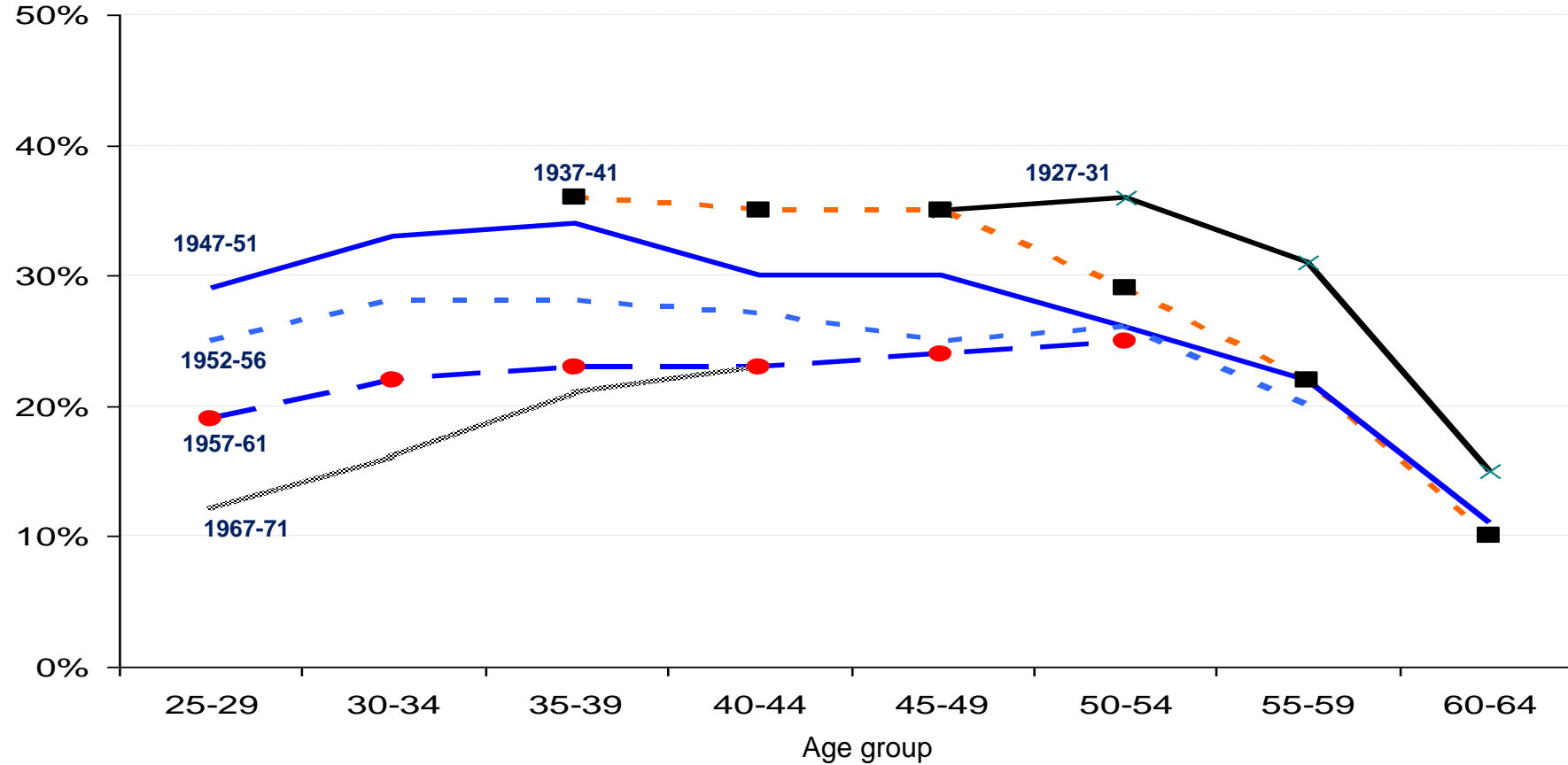


Source: Special tabulations from Statistics Canada using Labour Force Survey; Projections from the authors

RETIREMENT – Can we expect continuing trend towards later retirement? (1)

Lower private pension plan coverage

Proportion of men declaring deductions for RPP contributions by age and cohort, Canada

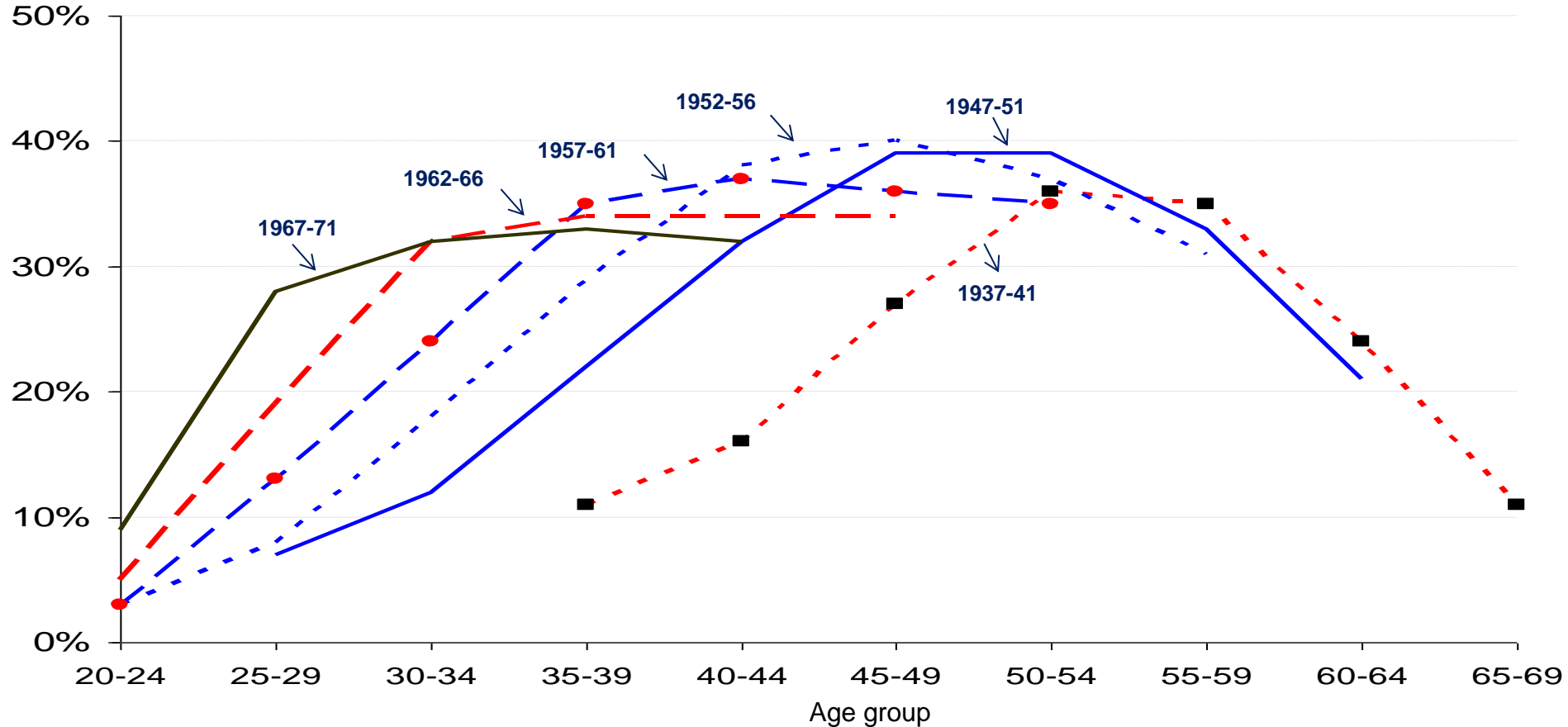


Source: Carrière, Y., J. Légaré et J. Purenne (2016). " Vivre et travailler plus longtemps au Canada : la réalité des baby-boomers ", *Cahiers québécois de démographie*, vol.44, no.2, pp. 251-278.

RETIREMENT – Can we expect continuing trend towards later retirement? (2)

Increasing proportion of contributors to RRSPs

Proportion of Canadians declaring having contributed to an RRSP by age and cohort

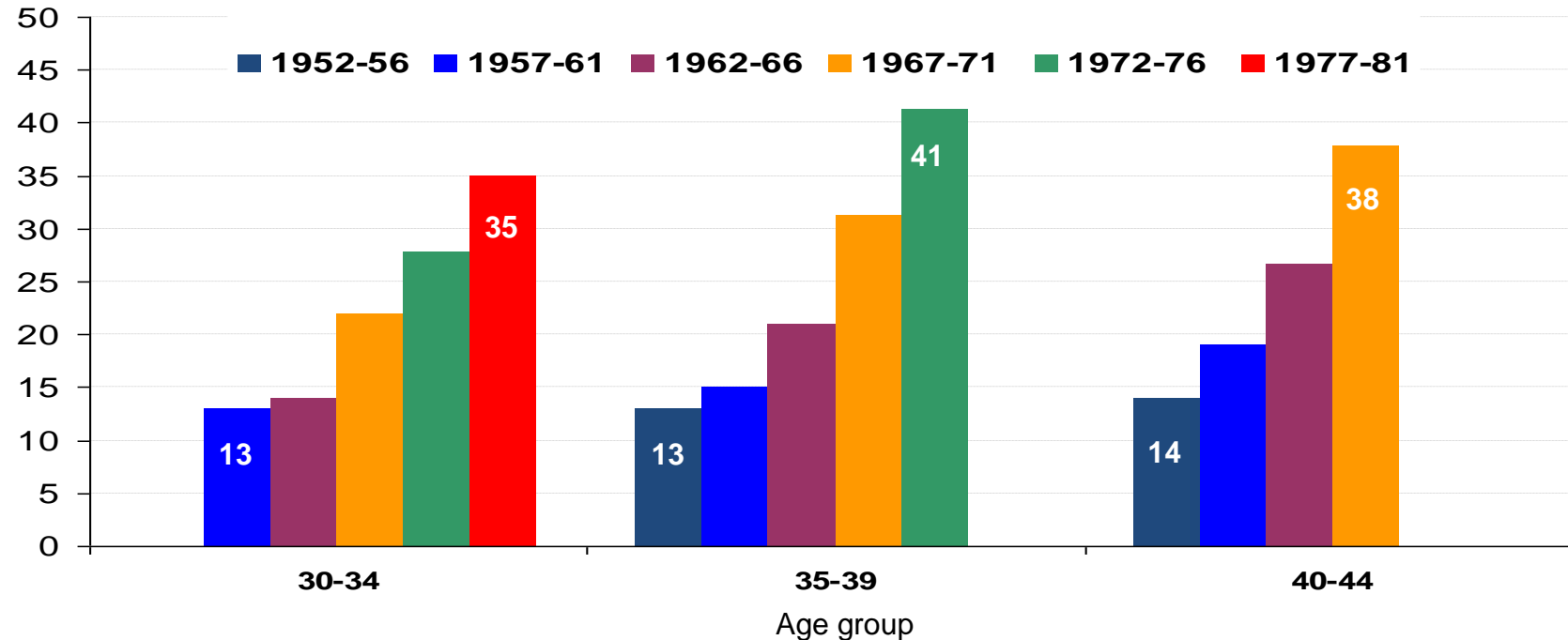


Source: Carrière, Y., J. Légaré et J. Purenne (2016). " Vivre et travailler plus longtemps au Canada : la réalité des baby-boomers ", *Cahiers québécois de démographie*, vol.44, no.2, pp. 251-278.

RETIREMENT – Can we expect continuing trend towards later retirement? (3)

Saving in an RRSP does not necessarily means saving for retirement

Number of Canadians withdrawing money from RRSPs for 100 Canadians contributing to an RRSP, by age and cohort



- Excludes Canadians withdrawing a portion of their RRSPs under the Home Buyers' Program and the Lifelong Learning Plan and reimbursing as expected.

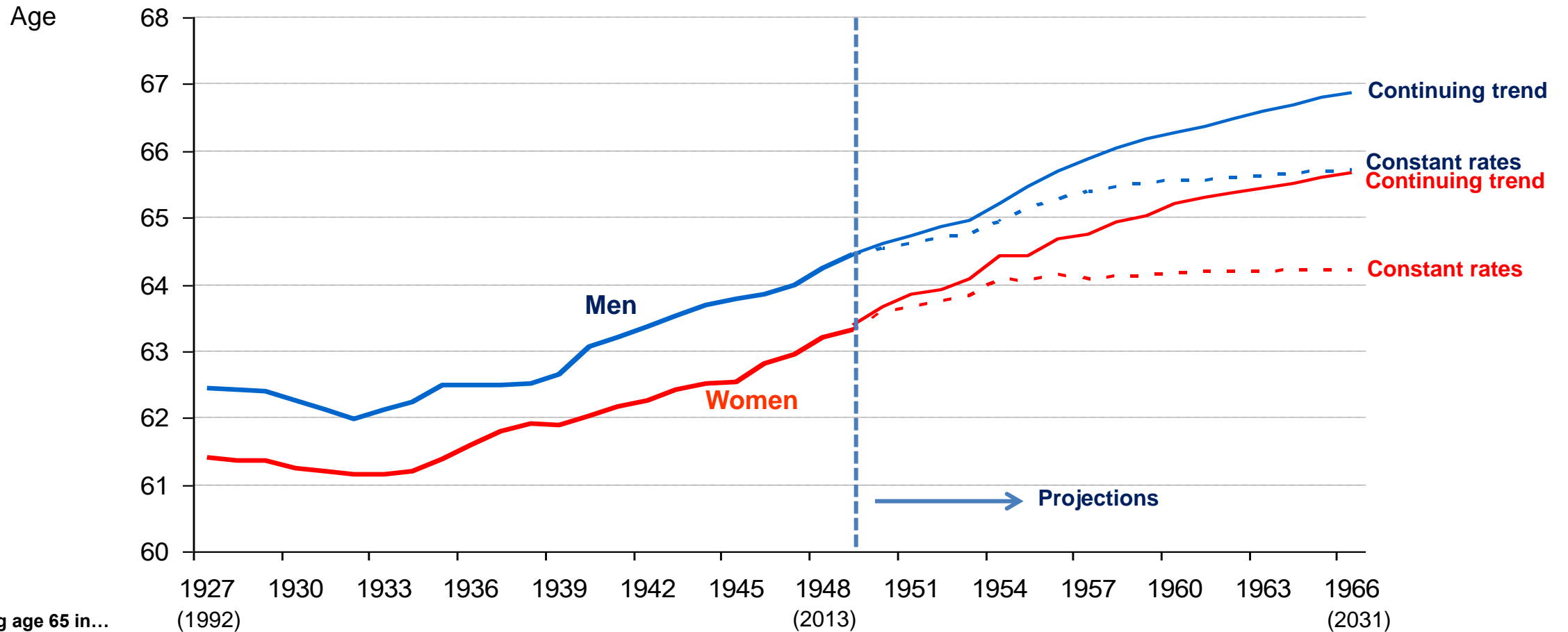
Source: Carrière, Y., J. Légaré et J. Purenne (2016). " Vivre et travailler plus longtemps au Canada : la réalité des baby-boomers ", *Cahiers québécois de démographie*, vol.44, no.2, pp. 251-278.

Other trends to consider

- Delayed early life transitions
- Increasing debt load
- Labour shortages
- Decreasing replacement rate from public pensions
- Increasing life expectancy
- Increasing proportion of immigrants within the labour force

RETIREMENT – We can probably expect an increase in effective retirement age

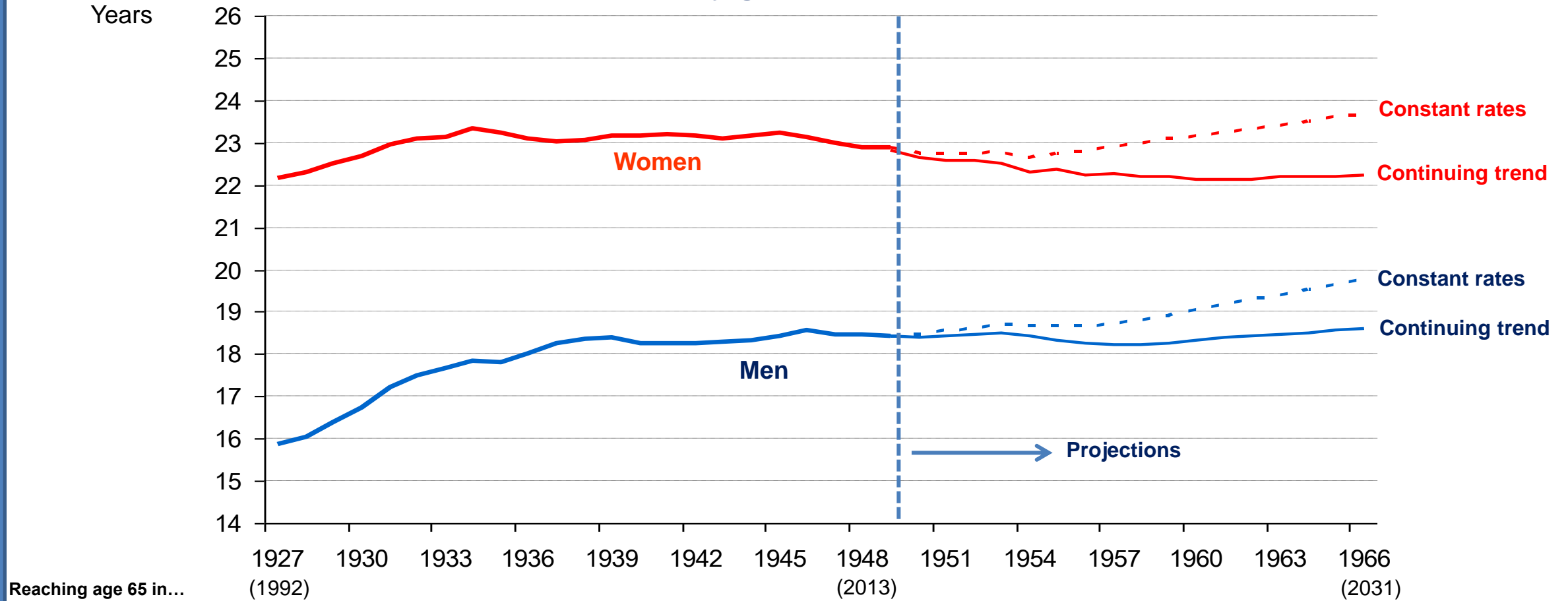
Projections of effective retirement age for 1950-1966 cohorts, by gender, Canada



Source: Special tabulations from Statistics Canada using Labour Force Survey; Projections from the authors

RETIREMENT – And a relatively stable period of retirement

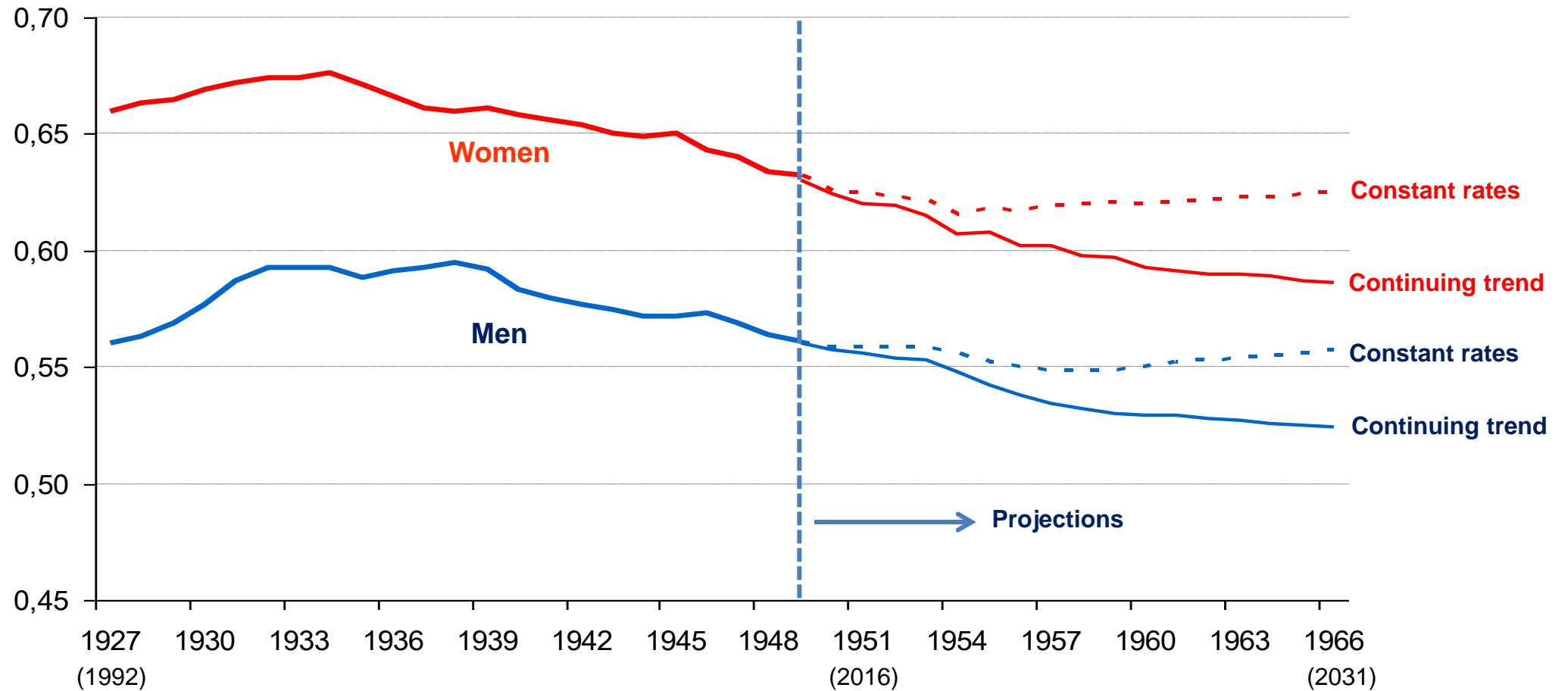
Projections of expected number of years in retirement for cohorts 1950-1966, by gender, Canada



Source: Special tabulations from Statistics Canada using Labour Force Survey; Projections from the authors

RETIREMENT – Resulting in a decreasing proportion of life in retirement from age 50

Projections of expected years in retirement as a proportion of life expectancy at age 50 for cohorts 1950-1966, by gender, Canada



Reaching age 65 in...

(1992)

(2016)

(2031)

Source: Special tabulations from Statistics Canada using Labour Force Survey; Projections from the authors

STILL, A LOT OF UNCERTAINTY

- What if technology renders many occupations obsolete?
- Some predict a sharp rise in unemployment:

“When you add all of that up, some think 50 percent unemployment is optimistic. Software entrepreneur Martin Ford predicts something closer to 75 percent unemployment by the end of the century. “The vast majority of people do routine work,” Ford says. “The human economy has always demanded routine work.” And eventually, that work won't be done by humans.” (Max Nisen, Business Insider, January 2013)

- But we have heard similar discourse in the past...which does not mean they will be wrong again!
- And what if there is 100 million Canadians in 2100 (Doug Saunders) and if life expectancy reaches 150 years?

THANK YOU!

What will retirement look like in 2050?

Bernard Morency

Senior Fellow CD Howe and Global Risk Institute

Adjunct Professor HEC, Montréal

Some key findings from Yves' presentation

- A growing, aging and more diverse Canadian population
 - 36 M people, with a median age of 40.6
 - 46 M people in 2050, with a median age of around 44
 - 70%-80% of growth will come from immigration
- We live longer and retire later
 - Number of years spent into “full retirement” is relatively stable
 - An older working population
- Life expectancy will continue to increase, and so will the trend towards later retirement
 - Fewer people contribute to an employer-sponsored Registered Pension Plan
 - More people contribute to an RRSP, but funds are also used for many other purposes than retirement

What will retirement look like in 2050?

- Wide range of views
- It's all about flexibility!
- Will the concept of retirement as we know it still exist?

A thriving retirement system...

- Designed in the mid-60s by the parents of the Baby-Boomers
- Mostly paid for by the Baby-Boomers
- Not that expensive at first:
 - short life expectancy after age 65
 - a lot more paying Boomers than parents receiving a pension
- Boomers copied the idea and improved the system
- Worked reasonably well until the turn of the century
 - even if people retired much earlier than age 65 and lived longer than expected
- Why? Financial and Real Estate markets did great
 - Benefit improvements and contribution holidays
- Increased contributions to C/QPP
 - Without equivalent benefit increases

... but employers began to question: why provide lifelong guarantees?

- Huge gap between private and public sector employer pension plans
 - private sector: less than 10% of workers with a DB pension plan
 - public sector: over 80% of workers with a DB pension plan
- More reliance on individuals to ensure a sufficient retirement income
 - how do we help them save enough and manage their savings while working and, just as importantly, after they've stop working?
- These challenges led to two decisions:
 - Leave eligibility age for OAS and GIS at 65
 - C/QPP improved on a go-forward basis starting in 2019

Income replacement ratios from Public Plans at 65

- Single person with no other retirement income who asks for C/QPP at age 65

	50% of YMPE	100% of YMPE	150% of YMPE
Today	71%	41%	27%
2065 with no change	48%	32%	22%
2065 with changes	53%	41%	30%

The improvement to the C/QPP will not do much to improve the situation of middle-class people, not in the near future... and not 40 years from now.

The bulk of the aging will happen between now and 2035

Age	Distribution of the Canadian population		
	2016	2035	2050
Below 20	21%	21%	21%
20 – 64	62%	55%	54%
65+	17%	24%	25%

Source: 2016 census of population

In the 2030s, Millennials will be the largest segment of the population

Generation	2016		2036	
	Number (in M)	Age	Number (in M)	Age
Pre Baby Boomers	4.0	70+	0.6	90+
Baby Boomers	9.6	50-69	7.4	70-89
Generation X	6.9	35-49	7.2	55-69
Millennials (Generation Y)	8.9	15-34	11.0	35-54
Digitals and Alpha	5.8	0-14	7.6	20-34
The next Generation	-	-	9.1	0-19
Total	35.2		42.9	

Source: 2016 census of population

What retirement will look like will depend on what work will look like

- Two forces at play: Automation and Aging
 - major impact of technology and AI on work environment and people's career by 2030-2035
 - will have to find a way to keep people at work longer than now
- The keys to success:
 - adaptability of the work force and of the employers policies and practices
 - a welfare system to look after those who will be left behind
- Multiple sequential careers but also multiple parallel careers
- Continuing trend towards self-employment and contract work

Why would people want to tie their savings to one goal, far in the future, something people used to call: retirement?

A more level playing field and a built-in transition

- People age 65+ have:
 - guaranteed minimum income through OAS and GIS
 - access to better health and medical coverage than people under 65
- A new Guaranteed Minimum Income (GMI) from age 60, increasing every year until age 75
- At age 75, GMI combined with C/QPP will deliver:
 - 80% of income for people earning 50% of the YMPE
 - 60% of income for those earning 150% of the YMPE
- Personal savings needed for a full retirement before age 75
 - people likely to gradually transition from full time work to full time retirement

A few other thoughts

- AI will solve the financial literacy challenge for us
- Medical assistance in dying will be as accessible in Canada as it is in Switzerland today
- Our system will encourage saving for financial security not saving for retirement
- Much more flexibility on use of the money set aside for financial security
- Employers will welcome older workers
- Public sector plans will be fully integrated with the GMI and C/QPP and have more risk sharing
- Retirement benefits from C/QPP will be further increased but ancillary ones won't

Will Supplementary C/QPP reserves be used to pay for improved benefits?

	Base C/QPP			Supplementary C/QPP		
	Reserve (in B\$)	Annual payouts (in B\$)	Reserve as multiple	Reserve (in B\$)	Annual payouts (in B\$)	Reserve as multiple
2017	377	60	6.3X	N/A	N/A	N/A
2030	710	113	6.3X	246	2.7	91X
2035	880	139	6.3X	469	6.5	72X
2050	1,690	246	6.9X	1,669	39.7	42X



Source: CPP and QPP actuarial

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Thank you!



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