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Introduction

The **National Institute on Ageing** (NIA) is a think tank at **Toronto Metropolitan University** (TMU) focused on the realities of Canada's ageing population. Our mission is to enhance successful ageing across the life course and to make Canada the best place to grow up and grow old.

Since 2016, the NIA has been unique in its mandate and focus to consider ageing-related issues from a broad range of perspectives to improve outcomes for all Canadians as they age. This is achieved through the development of, and strong advocacy for, effective policies and programs that better enable the financial security, health and social wellbeing of older Canadians.

Through research reports, roundtables, consensus building, media coverage, and advocacy, our national leadership on ageing issues has contributed to demonstrable change in the Canadian landscape. The NIA has more than 30 published policy reports that have directly led to significant reforms to government and industry policies and practices, having improved the lives of millions of older Canadians.

Bonnie-Jeanne MacDonald, PhD, FSA, FCIA is the Director of Financial Security Research at the NIA and resident scholar at Eckler Ltd. She has published papers on a wide variety of topics relating to retirement financial security for Canadians, including several papers examining the decision when to commence CPP/QPP benefits.

Barbara Sanders, MSc, FSA, FCIA is Associate Professor of actuarial science at Simon Fraser University and Associate Fellow of the NIA. Her research encompasses retirement security, intergenerational equity and sustainability.

Context

Before addressing the specific questions raised in the consultation document, we review the broader context within which the government's proposals and questions are to be considered. This context contains two significant challenges confronting the retirement income system.

The first challenge can be seen in the growing difficulties of retirees to successfully manage their financial affairs in the face of multiple well-documented trends, including increasing longevity, relatively low interest rates, fewer and fewer workplace pension plans that provide income for life, and a dearth of options to efficiently convert retirement savings into secure and affordable lifetime income.

The second challenge lies at the intersection of retirement financial security and long-term care (LTC). It is no secret that our public home care and long-term care programs are severely underfunded (MacDonald *et al.*, 2019). Population ageing has been blamed for the gaps that led to the pandemic crisis in nursing homes, but when it comes to LTC demand, we're just seeing the tip of the iceberg. In 2021, the oldest baby boomer turned 76, an age at which most people are still living independently and do not require care.

At a national scale, MacDonald et al. (2019) showed that if we continue on the current track, the cost of publicly funded long-term care for seniors – including nursing homes and home care – is expected to more than triple in 30 years, rising from $22-billion to $71-billion, in today's dollars. That accounts for one-fifth of all provincial and federal personal income tax revenue by 2050 — double what it is today.

By the time baby boomers move into their 80s, a combination of factors will create intense pressure on our LTC system. Along with being the largest generation in history and having the longest life expectancies, they are also the first generation to have relatively few children. Adult children have traditionally been the backbone of LTC in Canada. In fact, research by the NIA has found that 75 per cent of all care is being provided informally by close family members (MacDonald *et al.*, 2019.)

If all the projected unpaid hours of family care had to be paid publicly, this would add $27-billion to public-sector costs by 2050, increasing the projected cost from $71-billion to $98-billion. Economy-wide, $98-billion in 2050 would represent more than one-quarter of all projected provincial and federal personal income tax revenue, nearly matching Old Age Security benefit expenditures.

All this points to the importance of retirees structuring their finances efficiently in order to draw the maximum possible income while alive, so they can meet not only their everyday living expenses but also their growing home care and LTC needs from private resources (assuming the public purse will be severely strained).

Fortunately, an excellent financial solution already exists: delaying QPP benefits for as long as possible. However, MacDonald (2020) found that delaying QPP benefits is a severely misunderstood and underused retirement financing solution – yet there really is no better financial strategy when it comes to securing additional reliable pension income. Retirees don't have to take QPP right away and can wait until age 70, which would more than double their lifetime worry-free pension.

To bridge the gap between the time when a person withdraws from the labour force and the time (delayed) QPP benefits commence, people can use their savings – including registered retirement savings plans, registered retirement income funds and tax-free savings. In fact, MacDonald *et al.* (2020) found that holding onto savings instead of using them to finance a QPP delay carries much more risk and much less reward.

Yet most retirees take their social security benefits by age 65, and fewer than 1% choose to delay benefits to age 70. In fact, until recently, Quebecers have most commonly taken their QPP benefits as soon as they were eligible – at age 60 – likely without considering the far-reaching financial effects of this decision. In doing so, they were unknowingly giving up substantial lifetime income – as well as protection against financial market risks, the possibility of high inflation, living longer than anticipated and the anxiety of potentially running out of money in retirement.

To give a sense of what that means: the average person is losing approximately $100,000 of lifetime income by taking retirement benefits at age 60 instead of 70. That could make a substantial difference for a person in their 80s or 90s needing to finance health-related costs to age in their own home.

MacDonald *et al.* (2020) has found that most retirees in reasonable health who can afford to defer their QPP benefits should do so. The financial advantages are material. For that reason, we commend the Quebec government for pursuing this solution and recognizing the substantial value that it holds for improving retirement financial security.

Responses to proposals in the “Public Consultation on the Québec Pension Plan”

1. **Progressively postpone the minimum age of eligibility for a retirement pension under the QPP from 60 to 62 or 65 (section 3.2)**

   Mandating a change – although very effective in moving the population away from the often-unfavourable age 60 claiming behaviour – may lead to population resistance and worsen potential mistrust of the QPP programs; mistrust that could already be fuelling some of the observed irrational claiming behaviour. Moreover, it will not solve the problem of encouraging later claiming ages, which is financially advantageous for many workers.

   The NIA has actively provided and promoted alternative perspectives aimed at changing CPP/QPP claiming behaviour in recent years. For example, MacDonald et al. (2020) and MacDonald (2020) have directly led to reforms within the financial planning community. The latter report has been added to the syllabus for financial planner certification. Emerging data and feedback from stakeholders suggest the NIA’s outreach efforts are impacting claiming behaviour.

   In addition, MacDonald (forthcoming) proposes many approaches to shift away from early claiming behaviour. The reality is that “when and why” people claim QPP is driven largely by psychological and social biases, particularly how the information is framed by those advising them. Moreover, there are substantial conflicts of interest that exploit these psychological biases and do not work in the financial self-interests of the retirees themselves. This upcoming publication outlines the challenges that are obstructing informed QPP claiming decisions. It also proposes a range of evidence-based and pragmatic adjustments to current policies and practices that stakeholders – such as human resource leaders, policymakers and the financial services industry – could realistically adopt to help retirees make more informed choices.

   For these reasons, we urge QPP policymakers to look beyond the legislative approach and consider other solutions, including aligning the substance and framing of retirement financial planning advice and the official communication of QPP benefits to support later claiming ages. By doing so, a much more powerful and long-lasting impact on claiming behaviour will be achieved that will strengthen public trust – rather than undermine it.

2. **Gradually extend the current limit for starting to receive a pension under the QPP from age 70 to 72 or 75 (section 3.2)**

Excerpt taken from MacDonald (forthcoming):

"Moving the age of allowable benefits to age 72 or 75, as recommended by the CIA and others (Genest-Gregoire et al., 2018; CIA, 2019), is theoretically a very good approach. For one, people tend to make choices based on the "middle" option (Valenzuela and Raghubir, 2009), so moving the upper age similarly moves that middle option. However, given that the CPP/QPP decision remains so significantly biased towards age 65 and earlier, until public opinion changes uptake age behaviour, there is substantial moral hazard – meaning that only the most wealthy and long-lived will choose the later ages, which would unfairly make the CPP/QPP systems more expensive for everyone. Research on why retirees choose to take early pension income will prove to be valuable in the discourse on whether changing the latest CPP/QPP possible claiming age is an effective option. More importantly, it will also inform complementary initiatives that could be adopted to encourage later claiming ages."

Proposals 3. – 5.

We agree with these proposals. Not only do such measures encourage the labour market participation of older adults – which is critical – it also supports later age QPP claiming.

6. **The addition, in both plans, of a measure to support caregivers who have to significantly reduce their work time**

We are fully in support with this proposal. It recognizes the societal contribution of caregivers. It also has the potential to help preserve the fragile socio-economic practice of families caring for their elderly.

With population ageing, the NIA projects that if family members tried to keep up with the care needs of the seniors they will be supporting, they will need to increase their efforts by 40 per cent, and some much more than others (MacDonald et al., 2019). Not only will each person need to do more, but many more workers are going to be called on as unpaid caregivers, as the number of seniors needing support more than doubles. The prospects for meeting this challenge are unfavourable – particularly when accounting for factors such as smaller families, more separated and divorced seniors, greater participation of women in the work force, and fewer elderly parents living with their children. Given that unpaid caregivers already report high levels of emotional, physical and financial stress, experts have been warning of the unsustainability of the unpaid care system for decades.

The proposed measure has two benefits in this regard. First, it will help protect the retirement financial outcomes of the worker receiving the additional drop-out room – improving the financial security of the future elderly population. Second, it will provide a financial incentive for such workers to take on caregiving responsibilities, thereby enhancing the financial security of the current elderly population.

Thank you for the opportunity to contribute to the consultation. Should you have any questions, please feel free to contact Bonnie-Jeanne MacDonald at bjmacdonald@torontomu.ca.

Sincerely,

Bonnie-Jeanne MacDonald

Barbara Sanders

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