FASKEN
Traçons l'avenir

RETIREMENT REALITIES IN CANADA

By Dominique Monet*

I. Introduction

Canada offers quite a well-defined portrait in terms of retirement realities from a social and economic perspective. As a preliminary matter, it is important to remind readers that Canada provides universal public healthcare through a system generally known as "Medicare" and broadly regulated by a federal statute called the *Canada Health Act.*[1] The system is broken down into ten separate provincial and three territorial insurance plans. Medicare is a single-payer public system. Accordingly, at least for a portion of its medical needs, the senior population of Canada continues to enjoy a basic medical coverage going into retirement.

It is relevant to mention Medicare from the outset given that healthcare costs are one of the main preoccupations of seniors as they consider or enter retirement and certainly a potential future big-ticket spending item.

However, for all its merits, the Canada Medicare program does not cover all healthcare costs. It does not cover prescription drugs although there is currently legislation before Parliament to attempt to create a new national Pharmacare plan[2] and the Province of Québec set up its own "mixed" drug insurance scheme in 1996.[3] The Province of Ontario, for its part, provides persons aged 65 and over a level of reimbursement of out-of-pocket drug costs.[4]

(*) Partner, Fasken. Member of the Québec and Ontario Bars. This paper contains no legal advice. All opinions expressed are solely those of the author.

1 *Canada Health Act*, RSC 1985, c C-6.

2 Ryan Tumilty, *Pharmacare Pact Extends Trudeau's Runway*, National Post, March 1, 2024.

3 The *Québec Drug Insurance Act,* R.S.Q. c A-29.01 instituted a public drug insurance scheme for Québec residents in 1996 that provided basic drug coverage. It also imposed on employers who offer group insurance or benefit plans to their employees and private insurers the obligation to provide the equivalent of basic drug coverage. In this regard, the Québec initiative in 1996 included mandates on the private sector that resembled those that would later appear in the American "Obamacare" experience.

4 The Ontario *Drug Benefit Proposal* (ODB) is said to cover the cost of approximately 5,000 prescription drugs.

Medicare does not notably address more contemporary problems such as the rise of home care and permanent institutionalized care due to the increase in longevity of human life. This problem can be particularly acute for younger retirees who themselves must attend to the care of more elder family members in addition to their own care or the care of their spouse, not to mention their children. Suddenly, retirees are not quite as old as they used to be!

That being said, let us turn to the general retirement realities in Canada from the perspective of retirement insecurity as an aspect of economic inequality.

II. The Pillars of Retirement Security in Canada: Public Sources

There are three (3) fundamental public sources of income that can be said to be the pillars of retirement security in Canada: the Canada Pension Plan (or in the Province of Québec, the *Régime des rentes du Québec*), federal Old Age Security (hereinafter the "OAS Pension") and the Guaranteed Income Supplement (hereinafter the "GIS").

The Canada Pension Plan (hereinafter "CPP") or the Régime des rentes du Québec (the "QPP") are defined benefit public pension schemes that provide working Canadians with a basic defined benefit at retirement. These government plans were set up in 1965-1966 and are funded through both employer and employee contributions and the return on investment. For the year 2024, the maximum annual CPP pension at age 65 is CDN$16,375. The earliest that CPP retirement pension can be received is age 60 and it can be adjourned to age 70. The figures and conditions for the QPP are comparable. The QPP was created at the inception of the CPP when the Province of Québec opted out of the federal program and set up its own parallel plan. The Province of Alberta is currently considering doing the same, but it is controversial and would require a carve-out of assets from the CPP.

The CPP/QPP plans operate on the basis of "Maximum Pensionable Earnings." This is a yearly amount on which contributions are made and the pension calculated. It necessarily places a ceiling on the pension. The Maximum Pensionable Earnings ("MPE") in 2024 are CDN$68,500. Recently, a supplemental option to contribute above the MPE to build up a larger pension has been instituted under the name of "CPP Enhancement."

The OAS pension is a monthly payment that the federal government makes to Canadians who have reached 65 years of age. For the year 2024, the maximum annual amount of OAS for persons between the ages of 65 and 74 is CDN$8,560.[5] This amount is means tested and subject to a claw back.[6]

Significantly, the OAS pension is not related to employment nor individual or corporate employer contributions. It is a direct federal government budget expenditure.

---

[5] This amount is increased to CA $ 9,416.04 after the age of 75.

[6] There is no OAS for a person whose income is CA $ 134,626 or more and there is a progressive reduction before reaching that level.

The GIS operates in tandem with the OAS and can provide an additional annual amount varying from CDN$7,696 up to CDN$12,780 depending on the annual income threshold of the recipient and his or her spouse for 2024. The GIS is generally considered as a source of income for individuals with very modest revenues.

For a person retiring in 2024 in Canada who has contributed the maximum to the CPP/RRQ[7] and is eligible to receive the full (or almost full) OAS and GIS, the aggregate retirement income would therefore be in the neighbourhood of CDN$37,700.

In the case of the CPP/QPP pension and the OAS, there is a financial incentive for Canadians who can afford it to defer the payment past the age of 65. Delaying the CPP for one (1) year, for example, will increase the pension by 8.4% whereas delaying the OAS for one (1) year will increase the pension by 7.2%.

III. **Private Retirement Income**

The expression "Private Retirement Income" is used in this part because the source of the funding for the capital accumulation and eventual retirement income is either the individual employee alone, the employer alone or a joint contribution of both employer and employee. Although both the source of the funding and the resulting income at retirement are private in the sense that the government is not making any direct financial contribution, the state is nonetheless a silent actor. The mechanisms that shall be referred to are indeed made possible through the *Income Tax Act* (the "ITA") and therefore, they can be said to be the creations of public tax policy.

We are referring in this Part to Registered Pensions Plans ("RPP") and Registered Retirement Savings Plans ("RRSP").

RRPs are classic employment pension plans as generally understood in Canada. They are usually either defined benefit plans ("DB Plans") or defined contribution plans ("DC Plans") or sometimes a mixture of both which are referred to as "hybrid plans." Since the year 2000, the trend in Canada has definitely been a migration from DB Plans to DC Plans. This trend has been interpreted as being favourable to employers because they no longer have to fund actuarial deficits or otherwise be responsible for the payment of a fixed pension based on years of credited service. In DC Plans, the pension is largely based on the accumulated contributions plus the investment returns throughout the years of participation. The DC pension is far more dependent on the market than the DB pension. The ITA allows the contributions to RRPs to be tax deductible up to certain limits and further limits the amount of pension which a person may receive from an RRP.

---

[7] It is assessed that to reach the maximum a Canadian has to have worked and contributed to the CPP/QPP for 39 years.

RRSPs are accounts which an individual can set up to essentially mirror for their own benefit an RRP, resembling primarily a DC Plan. They are not pension plans because they are not regulated by pension legislation and are not subject to the corresponding restrictions based on age and immobilization of funds. There is no periodical reporting to any agency. Again, the ITA allows contributions to be tax deductible but sets out limits. For 2024, the individual is allowed to contribute to an RRSP the lesser of 18% of their salary or CDN$31,560. Normally, money can be withdrawn from an RRSP at any time but with tax consequences. Whatever investment returns are generated inside the RRSP are not taxed until withdrawal. The purpose of the scheme is to permit tax-free capital accumulation that may eventually serve to fund retirement income. Employers may offer their employees a group RRSP and make contributions for their benefit inside the maximum ITA allowable limit.

In a report by Deloitte Canada published in November 2023 titled "*Running out of time: an urgent call to fortify Canada's private retirement pillars*"[8] the private saving habits of Canadians are explored, and many sobering findings are made. At a time when 14% of Canadians are set to retire over the next 10 years, it is estimated that 37% of "near" Canadian retirees[9] are at risk of not being able to sustain their retirement lifestyle while 31% of Canadian "near" retirees will be dependent on the public pillars of CPP/RRQ, OAS and GIS.

The Deloitte report postulates that, in addition to CPP/RRQ, OAS and GIS, a near-retiree household in 2023 will need at least CDN$340,000 of additional savings to enjoy a "modest" retirement lifestyle until the age of 82. Although there has been a shift to real estate investment in Canada, the RPPs and RRSPs are the privileged vehicles through which this objective can be met. However, it is noted that only 24% of private sector employers now participate in RPPs for the benefit of their employees.

IV. Realities in Terms of Retirement Income for White, Racialized and Indigenous Canadian Retirees

In this Part, I shall largely quote information and the designations contained in the remarkable 2021 paper by the Canadian Centre for Policy Alternatives, authored by Block, Galabuzi & King and titled "*Colour-Coded Retirement, An Intersectional Analysis of Retirement Income and Savings in Canada*"[10] (hereinafter the "CC Paper"). This paper is based on Canadian 2016 census data and terminology. It classifies seniors into White, racialized and Indigenous Canadian categories.

Canadian Indigenous and racialized retirees rely much more on the three (3) retirement pillars than White Canadian retirees. Forty-seven (47%) percent of the retirement income of Indigenous retirees is derived

---

[8] Deloitte (2023) *Running out of time: An urgent call to fortify Canada's private retirement pillars*, December 2023.

[9] Persons identified in the Deloitte report as being between the ages of 55 and 64.

[10] Block, S., Galabuzi, G. E. & King, H. (2021) *Colour-coded Retirement. An Intersectional Analysis of Retirement Income and Savings in Canada,* Canadian Centre for Policy Alternatives, ISBN 978-1-77125-552-3.

from public pensions compared to 40% for racialized retirees. By contrast, White Canadian retirees derive 34% of their income from public pensions. Among the said groups, racialized retirees, however, receive the lowest retirement income with an average annual income of CDN$29,200. Block, Galabuzi & King include in the definition of "racialized" retirees Black, Chinese and South Asian seniors. The overwhelming majority of racialized retirees are immigrants[11].

By the same token Indigenous and racialized retirees receive a greater portion of their (smaller) retirement income from CPP/RRQ, OAS and GIS than White retirees. White retirees draw more retirement income from private pension plans, RRSPs and TFSAs. It is estimated that the average income for a White retiree in Canada is CDN$42,800.

The CC Paper, as mentioned, breaks down racialized retirees into three (3) separate groups of seniors. Further interesting information is provided that relates to the investment practices of these groups. Chinese Canadian households notably derive more of their retirement income from their own outside investments than Black or South Asian retirees. Black retirees receive a greater portion of their retirement income from the CPP/RRQ and RRSPs than their Chinese or South Asian counterparts. Black retirees enjoy the highest retirement income of the three (3) subgroups. Nevertheless, they lag behind certain Indigenous retiree groups.

Although the CC Paper was issued in 2021 and utilizes data taken from the 2016 census in Canada, there is no reason to believe that the levels of retirement income have increased, or the discrepancies have narrowed in 2024. It is hoped that it has not worsened. In addition, Canada has experienced a period of continuously rising inflation since January 2022. Inflation hit a peak of 8.1% in the month of June 2022 but at least in the short-term has begun a downward trend as of September 2023[12] This means that the retirees receiving the levels of retirement income mentioned in this chapter have had to deal with this inflationary outburst.

From this Part, it is evident that retirement in Canada can be argued to be, as authors Block, Galabuzi & King suggest, "Colour-Coded" with White retirees enjoying clearly a higher level of retirement income than others. The biggest difference would be between a White man receiving the average retirement income of CDN$53,011 and a South Asian woman receiving the average retirement income of CDN$22,900. White retirees also contribute more and eventually derive more retirement income from RRSPs and RPPs than others.[13]

Unfortunately, it is clear that inside the Indigenous, racialized and White retiree categories, women retirees earn consistently and substantially lower retirement incomes than men. In fact, for these categories, the gender gap ranges from 20% (for Black women) to 34.8% (for South Asian women).

---

[11] The CC Paper informs that 92% of Black seniors, 97% of Chinese seniors and 99% of South Asian seniors are immigrants.

[12] The rate for February 2024 was 2.8%.

[13] The CC Paper at page 4.

V. WHAT TO DO

The well-being of retirees and the alleviation of retirement insecurity and disparities has always been, and continues to be, a constant preoccupation of the State. The subject is addressed but not necessarily handled with the greatest care and attention. It is often a political football that is tossed around at election time. Let's take a distant historical example. During the erstwhile June 1996 presidential election in Russia that led to Boris Yeltsin being elected to a second term, even the Communist Party candidate campaigned on a promise of guaranteeing citizens a "worthy old age." [14] For his part, Mr. Yeltsin had increased old age, survivor and invalid pensions by 50% a few months before calling the election.[15]

Longevity and social and economic disadvantages, especially involving aging Canadian newcomers and Indigenous Canadians have created a new challenge to find mechanisms to ensure adequate lifetime income for all at retirement. The situation needs to be adapted and improved.

There is no easy way to improve the situation. In Canada, the CPP/RRQ already offers a basic lifetime defined benefit retirement income to working Canadians which is an interesting starting point. With new enhancements, it has been recently called "one of the best retirement assets"[16] in the country. The goal of the CPP/RRQ is to replace approximately 33% of the average income received by working Canadians after 2019 as matched against the Maximum Pensionable Earnings.

As previously mentioned, enhancement of the CPP/RRQ schemes are already underway but serious consideration should be given to further accelerating their increased value. The advantages of the CPP/RRQ schemes are many. They provide lifetime stable income; they relieve the participant of any responsibility for the investment and management of assets. The risks are essentially assumed by the government. By increasing the Maximum Pensionable Earnings threshold, the amount of pensions can be increased. Canadians and their employers will necessarily be contributing more, but Canadian retirees will get more in return in the most secure and advantageous way. Also, once the normal CPP/RRQ pension is vested at age 65, deferral becomes itself a very interesting and practically risk-free investment.

In 2009, the Canadian government introduced a new savings vehicle called the "Tax-Free Savings Account" generally known as the "TFSA." The TFSA allows Canadians to create a tax-free capital accumulation base. There is no tax deduction for the amount of the deposit, but the interest and investment return are not taxed. For the year 2024, the maximum contribution allowed is CDN$7,000.[17] The increase of the maximum allowable annual contribution is very tightly controlled by the government.

---

[14] Colton, Timothy J., *Yeltsin a Life* (2008), at p. 359.

[15] Ibid, at p. 362.

[16] Felix, Benjamin, February 29, 2004 (updated March 13, 2024), *CPP is one of the best retirement assets money can buy, despite what the skeptics say*, Globe and Mail.

[17] This limit was increased from CDN$6,500 in 2023 through the application of a complex inflation-based formula.

At its inception in 2009, the maximum allowable contribution was CDN$5,000 which means it increased very little over 15 years. For individuals determined to use the TFSA as a pension creating device, it can be beneficial over the long term, especially for a new generation of Canadians. Therefore, the raising of the level of the maximum allowable contribution, a redesign to encourage more retirement-related deposits or the elimination of contribution limits altogether appear to be steps in the right direction to improve our retirement income system.

Given that the RRSP already has an absolute dollar contribution limit of over CDN$30,000, it seems less imperative to raise the threshold for this vehicle than for the TFSA.

Clearly, the combined effect of the TFSA and the RRSP can provide an opportunity for Canadians to build a reasonable retirement income stream in the future, provided they have sufficient disposable income, and they are motivated to do so.

Finally, the problem of RPPs in the workplace largely exceeds the phenomenon of migration from DB Plan to DC Plans which began in the early 2000s. RPPs are disappearing in the private sector. In this regard, consideration should be given to mandating some kind of workplace savings plan for the benefit of private sector employees or creating a province-wide retirement plan. In Canada, the Province of Québec passed legislation in 2013, the *Voluntary Retirement Savings Plans Act,*[18] which compels any employer who employs five (5) employees on December 31 of a given year to offer a “voluntary retirement savings plan” to its employees. The Province of Saskatchewan, on the other hand, has created a province-wide voluntary defined contribution pension plan instead of mandating private employers.[19] There is also the added particularity that Saskatchewan is home to a large group of self-employed agricultural workers. A province-wide pension plan which is available over and above the CPP, RRSPs and TFSAs remains an interesting model to compensate the shortage of RPPs.

---

[18] R.S.Q. c R-17.01.

[19] *The Saskatchewan Pension Plan Act*, SS 1986, c S-32.2