GROW LABOUR MARKET SIZE THROUGH INCREASED EMPLOYMENT OF SENIORS

Issue

Labour force issues which plague Canadian businesses are being addressed through pathways which include increased immigration and immigration-friendly legislation; increased trades and skills training; and affordable housing for increased workforce housing. Missing in the current conversation is incentivizing populations which are legally entitled to government payments from both Old Age Security and Canada Pension Plan funds. In both cases, Canadian residents have generally paid into these funds throughout their working lives – and consider these funds "theirs". However, misunderstandings – and misinformation – abounds, particularly within the senior population itself and its employers – and there is an opportunity to add to the workforce by addressing this sector with better information and incentivization from the federal government.

Background

Many seniors believe that they must quit work and quit earning when they hit ages 65-70. Some of this is historical, based on companies and professions mandating retirement at 60 or 65. A large percentage of the workforce does not have a pension plan through their current, or their accumulation of, employers; this is the group that most depends on the two government funding sources: CPP (Canada Pension Plan); and OAS (Old Age Security).

The government claws back portions of OAS funds if individuals choose to continue working, even at modest-paying jobs or on a part-time basis. Based on overall income, this portion varies. OAS income is taxable and is based on the individual's tax bracket.

CPP is not clawed back but is not protected from being taxable income.

Many seniors choose to retire or dramatically reduce the hours worked to mitigate the clawback effect. This results in a net loss of human capital in the workforce of already trained, "job-ready" workers.

Multiple employers have long been on record as finding senior populations valuable as employees, due to reduced calls on their time from growing families; a well-developed work ethic; experience in a broad range of skills; and a more settled lifestyle. As individuals may choose to receive CPP at age 60 and OAS at 65, this is the definition of "senior" for this discussion.

<u>What is OAS and how does it work?</u>

OAS stands for Old Age Security and it is both exactly what it seems and also not quite. "OAS is supposed to be a universal benefit given to all seniors in Canada," explains Bonnie-Jeanne MacDonald, director of financial security research at Toronto Metropolitan University's National Institute on Ageing. It's a monthly payment to any Canadian over the age of 65. In most cases, individuals will be automatically enrolled upon their 65th birthday and don't have to apply.

There is a caveat in MacDonald's definition: "supposed to be." To collect the maximum amount of OAS, one must be a Canadian citizen or permanent resident and have lived in Canada for at least 40 years after the age of 18. If an individual has only resided in Canada for 20 years, for example, then they are only eligible for partial payouts. New immigrants who have lived in this country for less than 10 years, are not eligible at all. “The only requirement is a simple residency requirement,” explains Ms. MacDonald, “but if you don’t have it – which a lot of people in Canada don’t – that’s a big problem.” These exceptions are not well understood, yet most seniors in Canada will easily qualify for Old Age Security, whether they’ve worked and filed taxes for all these years or not. In 2022, the maximum monthly OAS amount was $685.50 (the average was $666). When the recipient turns 75, that amount is raised by 10 per cent. Every quarter, the payouts are indexed to reflect inflation.

Thus, many of these older residents may not fully mimic the earlier referenced “job-ready” nomer.

The other, rather massive caveat to OAS is that if a senior has ample income, say, from investments, a company pension, or withdrawals from a registered retirement savings plan (RRSP), they might earn too much money to qualify for full (or any) OAS benefits. After a certain threshold (in 2023 Recovery Tax Period it’s about $82,000)[1], individuals are subject to clawbacks, and if income is above the ceiling (for the 2023 Recovery Tax Period it’s $134,626 for those aged 65 to 74, and $137,331 for those 75 and older), then OAS will be fully clawed back.

“The top 15 per cent of seniors *won’t* get the maximum OAS at all because they make too much money elsewhere,” says Ms. MacDonald. This 15 per cent also represents a valuable cohort for ongoing employment especially in a tight labour market. If the government made OAS a universal benefit as in many European countries, not income-tested nor clawed back this valuable seniors labour pool would expand immediately.

<u>What is CPP and how does it work?</u>

The Canadian Pension Plan, unlike the (supposedly) universal OAS, is for Canadians who have worked, collected income, and filed taxes in their lifetime in Canada. (In Quebec workers contribute to something very similar: The Quebec Pension Plan, or QPP.) “The CPP is a social insurance program that’s intended to replace employment earnings when someone stops working,” says pension consultant Doug Runchey at BC-based DR Pensions.

To qualify a worker must have worked for an income, declared that income, and contributed to the pension plan in advance. “Everyone who’s over 18 and has employment earnings already has the benefit simply by filing their taxes,” says Runchey. (There are no opt-outs: contributing to CPP is mandatory for workers in Canada.)

“The calculation isn’t simple, and it changes year by year based on average salaries,” says MacDonald. Workers contribute nothing when net income is below $3,500 and the year’s payments max out at “maximum pensionable earnings” (in 2022, $64,900).

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[1] CRA https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/recovery-tax.html

			Maximum income recovery threshold	
Recovery tax period	Income year	Minimum income recovery threshold	Age 65 to 74	Age 75 and over
July 2022 to June 2023	2021	$79,845	$129,757	$129,757
July 2023 to June 2024	2022	$81,761	$134,626	$137,331
July 2024 to June 2025	2023	$86,912	$141,917 [1]	$147,418 [1]

"If you're a traditional employee, then it's typical that your employer pays half of your contribution," says Runchey. Self-employed people also contribute to CPP – a common question and concern, and they cannot opt out either – and they technically pay more. In a self-employed situation, a worker pays both sides.

Originally, the CPP was meant to replace 25 per cent of someone's preretirement income, but in 2019, the government raised contribution rates to correspond with 33 per cent of replaced income post-retirement. But the enhanced contribution rates are being phased in and how much one receives will depend on how much and for how long the worker made the enhanced contributions. These days, a person who has paid the maximum amount for every year they made the maximum earnings could now retire at 65 with about $1,250 a month from the Canadian Pension Plan, though the average CPP payment in 2022 was just $728. (CPP is indexed to inflation, albeit annually, so you can expect both those numbers to rise.) And workers have to begin collecting CPP at age 70.

<u>What is the difference between CPP and OAS?</u>

The biggest and most important distinction is the basic requirement to qualify: OAS is based on residency, while CPP is based on employment history. It's therefore possible to qualify for one or the other, or neither, or both.

The next difference is the age of eligibility. OAS payments are made the month after a 65th birthday but no earlier. CPP, however, has a larger window with wiggle-room for early retirement (as young as 60). Both OAS and CPP can be deferred, and the longer someone waits to cash in, the bigger the monthly payouts will be. For this reason, many people defer their CPP benefits to age 70, the latest one can begin to collect.

Another difference is funding. The CPP is funded while the OAS is not: this means OAS comes from the general tax revenue of the federal government every year, so it can change. Ottawa just introduced a permanent increase to OAS payouts – outside the normal inflation-related bumps – for the first time in decades. A new government, however, could certainly tweak numbers in the other direction were it so inclined.

The CPP, meanwhile, is a big pile of already-collected cash waiting to be tapped into when the time comes. The more paid into the pile over the years, the more money there is to get back up to the maximum – unlike OAS, CPP isn't subject to clawbacks. Senior workers' part-time income (this year if reaching $86,912) will have no impact; they will lose 50% of their CPP when/if they have an income of $200,000 or higher. Seniors saying they "have to quit because their pensions will be clawed back" are flat wrong. Education is the key to correcting this misunderstanding.

The number of years Canadians spend in retirement is dropping.[2] The number of retirement years peaked for workers around 2011, at which point retirement ages started increasing faster than life expectancies.[3] And CPP benefits are seen as safe, since a reduction would be political suicide. Why should more seniors therefore consider continuation of work?

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[2] https://www.theglobeandmail.com/investing/personal-finance/retirement/article-average-retirement-length-canada/

[3] *Ibid*.

Results of a CIBC poll taken five years ago noted 32 per cent of Canadians between 45 and 64 have zero savings for retirement. And by September of 2022, Thomson Reuters spoke to the labour crunch: "Canada is losing jobs — but the economy is losing more workers to retirement, too. The number of people who are retiring as young as 55 has hit a record."[4] Universalizing retirement benefits would help level the playing field for employers trying to hire over the coming decade.

Assumption: a senior has been an absolutely perfect Canadian citizen all these years and will retire with top rates of both CPP (about $1,250) and OAS ($685.50). While $1,900-ish a month is not nothing, it's probably not enough to live on – and definitely not enough if you plan to travel the world, take up golf or buy a boat. In fact, it works out to just a smidge above the poverty line in Ontario.

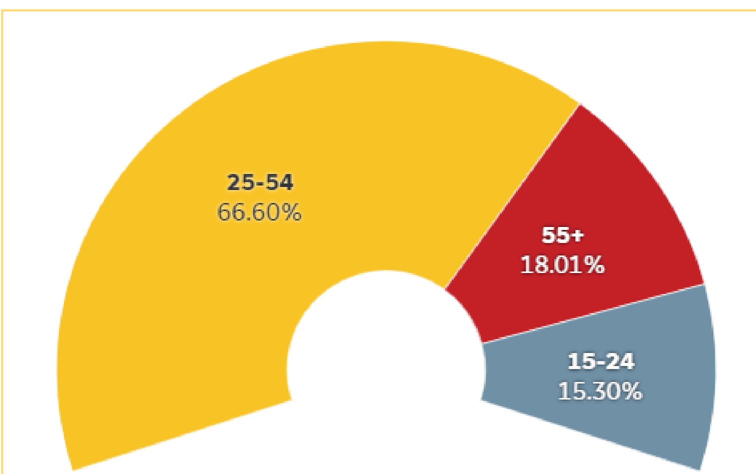
"Neither the CPP or the OAS is enough to retire on their own and they were never intended to be," says Runchey. He explains a common retirement metaphor: "Both were designed as one of three legs on a stool: CPP is one leg, OAS is another, and personal savings and/or private pension plan, if there is one, is the third leg." Only about one in five Canadians has a workplace pension; fewer have personal savings.

Are there any other government supports available?

"Within the OAS, there's the Guaranteed Income Supplement, which is for people with really low income to help them avoid poverty," says MacDonald. The exact numbers change slightly by tax year – but in 2022, a single, widowed, or divorced senior with an annual income of less than $20,784 would be eligible to receive a maximum amount of $1,024 a month.

As always, the government will take into account all other assistance and revenue sources and adjust your amounts accordingly, whether that income is from personal funds, like an RRSP, or government assistance, like the CPP. Every dollar received from another source means individuals lose 50 cents off the Guaranteed Income Supplement. Spousal payments also impact clawbacks.

Pension plans are being reduced by employers, people are living longer than before, baby boomers – a quarter of the population – are about to retire with a long life expectancy.



Source: Pete Evans/CBC News/Source: Statistics Canada

So why not keep working? The government needs to look at reducing their clawbacks, if only as a partial PR exercise to add to the labour force. And older workers need to be better educated as to their options: In fact, for the income year 2023, the minimum income recovery threshold for clawbacks is a fairly hefty $86,912.[5]

One in five Canadian workers now 55+; older workers make up more of the workforce than ever before.

[4] https://www.cbc.ca/news/business/canada-jobs-retirement-economy-1.6580000
[5] *op.cit.*

Budget 2023 (Outlook for Program Expenses) lists outlays, including elderly benefits: Old Age Security, money that goes to almost all seniors; and the Guaranteed Income Supplement, paid to low-income seniors, about a third of people aged 65 and older.[6]

Elderly benefits, as of last fall's budget update, are $69-billion in 2022-23, the fiscal year ending March 2023. In 2027-28, they are forecast to hit $96.6 billion. That's 40 per cent higher in five years.

About half of all new federal spending between this fiscal year and fiscal 2028 will go to pay for the rising cost of elderly benefits. The increase is in part automatic, thanks to benefits indexed to inflation and a rising number of Canadians 65 and older. An even better reason for Ottawa to help educate and ensure that more Canadians over 65 continue their employment, even part-time/contract.

There are of course, political choices. Just as the first baby boomers are turning 75, OAS last year was upped for people 75 and older to about $9,100 a year, compared with $8,250 for people 65 to 74.

Thus, it's statistically viable to predict that at least one-third of the Canadian workforce will need to continue generating work income after 65-71 – the GIS cohort; and up to another third will need to supplement their government, private and RRSP/RIF incomes through continued employment income. The labour market will benefit as will the individuals so employed.

THE CHAMBER RECOMMENDS

That the Federal Government:

1. Review the clawback of OAS and the impact on CPP payments on the marginal tax model[7] with the goal of increasing the number of seniors remaining in or returning to the workforce;

2. Review the long-term labour market benefit of allowing workers to remain fully or partially employed without clawing back the OAS payments based on the current marginal tax model, again with the goal of growing the labour pool;

3. Assist in educating employers and workers approaching retirement/elderly benefits age to make informed decisions about continuing to work through better understanding of clawbacks on government payments.

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[6] *Globe & Mail, March 23, 2023:* The growing generation gap between what Ottawa spends on older and younger Canadians

[7] Canada has a progressive tax system, meaning that tax rates increase as income increases. The marginal tax rate is the additional tax rate at which every additional dollar of income is taxed in a progressive system. The average tax rate shows the percentage of the total tax paid on total taxable income. https://www.wealthsimple.com/en-ca/learn/average-marginal-tax-rates

Submitted by the Kelowna Chamber of Commerce