How is Retirement Income Risk Shared in Canada

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Large scale expansion of Canada's public pension system in the mid 1960s, particularly the introducion of the public earnings-related Canada and Quebec Pension Plans (C/QPP) considerably increased the economic security of elderly Canadians. Over the following twenty years, the level of income security provided by the public pension system to retiring cohorts continued to increase modestly, in part as the C/QPP benefits became fully phased in.

More recently, over the past twenty years, the level of earnings replacement delivered by the public pension system to retiring cohorts has been declining. In addition, there has been a tendency in Canada, as in other countries, for private-sector employers to move away from defined-benefit (DB) employer-sponsored pension plans to defined-contribution (DC) plans. As well, overall levels of employer-sponsored pension plan coverage have been stagnant or declining. On the other hand, over the past 20 years, the tax incentives for personal retirement savings have been substantially increased, and there has been a corresponding increase in assets accumulated in tax-sheltered individual retirement savings plans. As well, nuptiality patterns have been evolving, essentially in the direction of greater rates of union dissolution.

As a result, younger birth cohorts of Canadians are being faced with a different set of retirement income risks, as the mix of public pensions, employer-sponsored pensions, and individual retirement saving shifts, along with declining rates of union stability – thereby affecting the risks associated with saving adequately, longevity, financial market performance, and inflation. Another way to think of this is that the mix of risk pooling at the levels of the individual and family, the workplace, and societal levels has been evolving.

In this paper, we will use Statistics Canada's LifePaths, a dynamic microsimulation model, to examine the extent to which the retirement income system has been providing adequate income security to Canadians over the recent historical period, and how these outcomes are projected to evolve for cohorts retiring in the future, with a particular focus on the relative importance of individual and family, employer, and societal levels of risk pooling. With this microanalytic approach, the paper will also explore the heterogeneity of results across lifetime socio-demographic groupings.