

The Aging Workforce: Removing Disincentives and Creating Incentives to Continue Working

A growing body of research clearly indicates that Canadian businesses will face a shortage of skilled workers, if they are not already. While there are many elements that must be considered to fully address this complex issue, the Canadian Chamber of Commerce believes that one element should be the removal of tax and other disincentives that discourage older workers who wish to stay employed, and whose employers wish to retain them, from continuing to work past age 65.

These changes are needed in a workforce that is not replacing itself and where demographers predict ever-increasing shortages of skilled and professional workers. Indeed, within the next five years more workers will be leaving the workforce than entering if there are no changes in the system. This potentially places a heavier burden on younger men and women to pay the taxes to support the pensions and benefits required for a growing population of seniors, adversely impacting the Canadian economy.

For these reasons The Canadian Chamber of Commerce welcomes the resolutions made by the Expert Panel on Older Workers in 2008, which echo those made by the Chamber in 2007, urging the federal, provincial and territorial governments to: 1) move to eliminate the work cessation clause in the Canada Pension Plan; 2) allow eligible individuals to work and receive benefits while still contributing to a pension plan; 3) minimize work disincentive effects associated with the Guaranteed Income Supplement clawback provisions; and 4) continue to promote phased retirement through facilitated changes in the tax and pension systems.

The Chamber also welcomes the proposal made by the federal, provincial and territorial Ministers of finance in Ottawa on May 25 2009 to remove the work cessation test. This change would allow seniors to take-up their CPP pension while continuing working either full or part-time and, in that way, phase into retirement or supplement their earnings. By the same token the Chamber welcomes the Budget 2008 increase in the guaranteed income supplement earnings exemption, from \$500 to \$3,500, which further removes disincentives to work for seniors.

The Chamber continues to recognize that there is room for improvement and believes that the government's *Old Age Security* program, tax-assisted private savings policies, and public pension plans provide disincentives for people to continue to work past age 65. Brief descriptions of some of these disincentives are as follows:

Old Age Security

The *Old Age Security* (OAS) program is an extremely important benefit and has become an essential part of the income for people with low and inadequate sources of income at retirement. No consideration should ever be given to eliminating it. However, it is also true that the OAS pension available to people when they reach age 65 is progressively clawed back. The April - June 2010 clawback starts at individual net income levels above \$66,733 and OAS is fully clawed back at income levels of \$108,090. At the threshold where the OAS payments are reduced, a potentially employable older person has to think twice about working, knowing that the net result is a lower per hour pay cheque based on this clawback.

Tax-Assisted Private Savings

Under current federal policy, a person must withdraw his or her Registered Retirement Savings Plan (RRSP) funds, transfer them into a Registered Retirement Income Fund (RRIF), or use them to purchase an annuity, before the end of the year containing his/her 71st birthday. This is a further disincentive to work, as these funds, which must be taken out of the tax-sheltered status, are then taxed at one's marginal rate. Some people at age 72 would and could work, but fail to see the value in working when they stand to lose large amounts of the money they previously saved for retirement.

Part-Time Pensions

The current pension system in many provinces/territories does not effectively allow for part-time worker pensions. In some provinces/territories, the amount of pension that a retired eligible employee can withdraw while still working is very small. Other jurisdictions do not even provide this flexibility. Many people would continue to work, but at ages 60 plus, many also want to have more time to pursue personal interests after a lifetime of working. Legislation needs to be developed to enable workers to transition to full retirement by providing them with the flexibility to receive a portion of their employer pension plan benefits while working part-time. This will undoubtedly keep some experienced people in the workforce longer.

Financial Implications

These proposed changes will have fiscal implications for the federal government. Reducing the OAS clawback could increase total federal government OAS liabilities (in 2002, 7% of seniors were subject to the clawback), and raising the mandatory age of RRSP withdraw could defer the payment of associated income tax revenues and/or decrease the marginal rate at which these incomes are taxed.

That said, with increasing life expectancies, removing financial disincentives for older workers to participate in the labour force could increase the age at which people choose to retire, thereby increasing federal employment income tax revenues and reducing overall government retirement program liabilities. The net effect of these changes will likely be positive.

Recommendations

That the federal government:

1. Work with the business community to amend the *Old Age Security* thresholds to encourage Canadians to continue working after age 65.
2. Work with the business community to amend the tax-assisted private savings system to allow Canadians to continue saving for retirement after age 72.
3. Work with the business community and the provinces/territories to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to gradually transition out of the labour force after age 65.