Today’s Objectives

- To discuss economic objectives of social insurance programs

- To discuss the economic problem of old age

Economic Objectives of Social Insurance Programs

1. Provide Basic Economic Security to Population
   – Primary objective is to provide protection against risks of premature death, old age, sickness and disability
   – Should provide a base layer of income protection, which when combined with other sources should be sufficiently high to provide a minimum standard of living

2. Prevent Poverty
   – Effective in reducing the number of beneficiaries who sink into poverty

Economic Objectives of Social Insurance Programs

3. Provide Stability to the Economy
   - Contributes to nation's economic stability by influencing consumption of goods, saving and investment (including during downturns in the business cycle)
   - Financing programs should also contribute to economic stability
   - Note: Economic stability should not overshadow primary objective of providing basic economic security

Economic Objectives of Social Insurance Programs

4. Preserve Important Economic Values
   - Promote personal incentives, initiative and thrift
   - Promote concept that a person's economic security should result from work and that benefits should be related to earnings
   - Benefits are paid regardless of income from private pensions, savings and investments, therefore workers are encouraged to supplement the basic layer of protection

Economic Problem of Old Age

The economic problem of old age consists of the following:

1. **Growing population of older people** After WWII.
   - Impact of "baby boomer" generation (those born between 1946 ?? - 1965) entering older years
     http://publications.gc.ca/site/eng/9.847134/publication.html
   - In 2015, there were more Canadians aged 65+ than then there were dependents age 14 or less for the first time
     https://www.cbc.ca/news/business/statistics-canada-seniors-1.3248295

2. **Loss of earned income because of retirement**
   - Will be focus of Module 2
   - Mandatory retirement at 65 eliminated in Canada (by 2012)
   - Note though that many still retire at or prior to age 65

<u>Economic Problem of Old Age</u> (continued)

3. **Longer retirement period** as a result of:
   - People living longer (**life expectancy trends**)
   - People retiring earlier, although trend has leveled off
   - Note also that people are entering the workforce later in life (so retirement period is relatively longer in this case - i.e. shorter period of working years)

4. **Insufficient income and assets**
   - As a group the proportion of the elderly living in poverty is lower than the population proportion, but there are big differences amongst subgroups of the elderly

<u>Economic Problem of Old Age</u> (continued)

5. **Poor health**
   - Those in old age see doctors more, are more likely to become disabled, have longer hospital stays, need more prescription drugs
   - We will also look at this area further

6. **Long term care**
   - This deals with receiving care in a nursing home or some other health care facility (including home care)
   - We will also focus on this area

Economic Problem of Old Age (continued)

7. **Heavy property taxes**
   - Property taxes can be significant portion of income
   - Increasing rent can also be a problem (esp. those on fixed income)

8. **Inflation**
   - Cost of food, housing, clothing and other expenses

9. **Other financial problems**
   - e.g. transportation costs

10. **Abuse of the elderly**
    - Financial exploitation and scams

      https://www.bloomberg.com/news/features/2018-05-03/america-s-elderly-are-losing-37-billion-a-year-to-fraud

<u>Attacking the Economic Problem of Old Age</u>

- Various techniques can and have been used to help address old age problems such as; retirement (no more working income), reduced health (using health care system more), nursing home, poverty among the elderly

- These techniques include
  1. Continued employment
  2. Retirement planning programs
  3. Age discrimination in employment laws (addressing discrimination)
  4. Tax relief
  5. Other measures

- **We will focus on attacking the problem of the loss of earned income because of retirement**

Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Attacking the Problem of the Loss of Earned Income because of Retirement

- The (*traditional*) **Three Pillars of Old Age Financial Security**

Pillar I – Individual Savings Plans

Pillar II – Group or Employer (E'er) Plans

Pillar III – Government Plans

Attacking the Economic Problem of Old Age (continued)

- A few things to consider before we review 'the Pillars':
  a) There are other sources of retirement income (not in "the pillars"), that are worth mentioning:
     i. Post retirement employment
        – Often retirees work part-time or on contract
        – Around 25% of retirees have income from earnings
        – This has and may become more important in future as pressures build on social security programs
     ii. Private intergenerational transfers
     iii. Reverse mortgages and other emerging techniques
        – With a reverse mortgage, part of retiree's home equity is converted into a steady stream of income payments

Attacking the Economic Problem of Old Age (continued)

b) We need to also distinguish between:

- **Retirement savings** – these are efforts to save money for retirement
- **Retirement income** – turning your savings into income upon retiring
- The two are linked – to obtain retirement income you need to have retirement savings plans/programs in place