

# Today's Objectives

- To discuss economic objectives of social insurance programs
- To discuss the economic problem of old age

## Module 1 – Financial Security and Insecurity

→ Basic Principles of Social Insurance (Ch 2 of *Social Ins. & Economic Security*)

### 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

Module 1 – Financial Security and Insecurity

→ Basic Principles of Social Insurance (Ch 2 of *Social Ins. & Economic Security*)

## 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

Module 1 – Financial Security and Insecurity

→ Basic Principles of Social Insurance (Ch 2 of *Social Ins. & 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

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### Economic Problem of Old Age

The economic problem of old age consists of the following:

#### **1. Growing population of older people**

- Impact of “baby boomer” generation (those born between 1946 <sup>After WWII</sup> - 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

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### Economic Problem of Old Age (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

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### Economic Problem of Old Age (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

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 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>



## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### Attacking the Economic Problem of Old Age

- 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

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 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

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 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