Canadian Perspectives on the Financial Realities of Ageing in Place

NATIONAL INSTITUTE ON AGEING

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About the National Institute on Ageing

The National Institute on Ageing (NIA) is a public policy and research centre based at Ryerson University in Toronto. The NIA is dedicated to enhancing successful ageing across the life course. It is unique in its mandate to consider ageing issues from a broad range of perspectives, including those of financial, physical, psychological, and social well-being.

The NIA is focused on leading cross-disciplinary, evidence-based, and actionable research to provide a blueprint for better public policy and practices needed to address the multiple challenges and opportunities presented by Canada's ageing population. The NIA is committed to providing national leadership and public education to productively and collaboratively work with all levels of government, private and public sector partners, academic institutions, ageing-related organizations, and Canadians.

About HomeEquity Bank

HomeEquity Bank is a Schedule 1 Canadian Bank offering the CHIP Reverse Mortgage solution. The company was founded more than 30 years ago, and introduced a groundbreaking mortgage solution in Canada that has since helped many thousands of Canadians to unlock the value of their top asset – their home. HomeEquity Bank is committed to empowering Canadians aged 55 plus to live the retirement they deserve, in the home they love.

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Introduction

Canadians are living longer and in better health than ever before. Yet, Canada is facing a retirement savings crisis that threatens the well-being of its rapidly growing ageing population. Canadians are increasingly reporting concerns about having inadequate financial resources and outliving their retirement savings.[1, 2] A 2018 survey showed that 30% of working-age Canadians have no retirement savings and 19% have less than $50,000 saved.[3] Recent research by the Canadian Institute of Actuaries (CIA) indicates that the COVID-19 pandemic has exacerbated concerns about financial security in retirement. Nearly one in four Canadians now say that COVID-19 has affected the timeline for retirement, for either themselves or their spouse, and that they will have to work longer in order to address the shortfalls.[4]

There are many financial considerations in retirement competing for every dollar Canadians have. From the cost of everyday necessities to the expenditures associated with living a full and enjoyable life in retirement — which could include travel and an engaged social life — Canadians may increasingly face difficult choices on how to plan and budget for 20, 30, or even 40 years in retirement. Further complicating the current economic landscape of retirement is the fact that more than 50% of Canadians have done no financial planning at all. Even amongst current retirees, 27% report that they haven't thought about financial planning over the course of their retirement or have yet to start this task.[5]

Determining where to live and receive care in older age has been an especially neglected part of retirement financial planning. The COVID-19 pandemic, and the devastating toll it took on residents in long-term care homes, has brought greater public attention to the option of ageing in place, within the community. It has also instigated conversations about the planning and financial resources required for a safe and comfortable retirement at home.

Canadians say that they are increasingly intent to spend their retirement years in their own homes for as long as possible.[6] There are many expenses associated with enabling ageing in place, such as the costs of maintaining one's home and of bringing care services and providers into the home. The price tag may also shift as one's health status changes.

In the aftermath of the COVID-19 pandemic, ensuring the financial well-being of Canada's ageing population has become more important than ever. The vast majority of older Canadians now indicate that they plan to do everything they can to age in their own homes for as long as possible.[7,8] It is clear that, in addition to personal savings, Canadians need a range of options and solutions to secure sources of long-term retirement income. In addition, adults across Canada need to undertake concerted planning in order to achieve the kind of retirement they want — in comfort and safety at home.

This report, produced by the National Institute on Ageing (NIA) in collaboration with HomeEquity Bank and Ipsos, provides insights on Canadians' views on saving for their retirement. Based on the results of two Ipsos surveys, this report documents the perspectives of Canadians on their ability to save for and fund their retirement plans, on where they want to live as they age, and on the costs associated with the care they or a loved one might need to enable ageing in place. Finally, the report provides a range of existing solutions and potential options for Canadians to consider in order to make ageing at home more affordable.

The two surveys that form the basis of this report's findings were conducted online by Ipsos. The first survey was conducted with 1,000 Canadians aged 55 years and older between May 6-10, 2020. The second survey was conducted with 1,000 Canadians aged 45 years and older between February 16-18, 2021. Both surveys have a reported margin of error of +/-3.5%, 19 times out of 20. All figures cited in this report are based on those who have formed an opinion on the matter and exclude 'don't know' responses.

Many Canadians are not Financially Prepared to Cover Retirement Costs

Many Canadians have insufficient resources to cover their costs in retirement. Today, approximately a third of working Canadians have some form of workplace pension coverage, a notable decline from the approximately half of Canadians who had access to workplace pension as recently as the 1970s.[9] Public programs and plans administered by the government — like the Canada/Quebec Pension Plan (CPP/QPP), Old Age Security (OAS) and Guaranteed Income Supplement (GIS) — provide all Canadians a base level of retirement income. However, they were never designed to offer a full replacement for pre-retirement income. While these public programs help cover some routine costs, they do not typically provide enough funds to cover all living expenses, uncertain costs that can arise, or enable most Canadians to sustain their pre-retirement standard of living as they age. Between CPP/QPP, OAS, and GIS, Canada's retirement income system is adequate to prevent poverty in older age. It is not sufficient to fund more costly necessities, such as home care.

For example, the most recent figures show that a person relying on the average Canada/Quebec Pension Plan (CPP/QPP) payment,[10] plus Old Age Security (OAS) and Guaranteed Income Supplement (GIS),[11] will only receive around $1,730 per month.[12] The reality is, Canadians have always been responsible for saving money to support their own retirement.

Workplace pension plans have historically helped to fill this gap, but nearly two thirds of Canadians do not participate in a workplace pension plan,[13] and the overall median value of retirement assets among Canadians aged 55-64, without a workplace pension plan, is just over $3,000.[14]

Before retirement, the savings efforts of Canadians compete with escalating costs such as those associated with housing, education, and childcare. In fact, families in their pre-retirement years are more likely to be carrying debt than in previous decades.[15] The overall costs of retirement are also rising. As life expectancy has increased to its current historical peak, Canadians looking to retire must consider the need to finance longer time horizons and the likely possibility of increased future health care-related expenses.[16] Canadians generally underestimate their life expectancy, further suggesting inadequate planning for longevity.[17]

The COVID-19 pandemic has only heightened these struggles.[18] It has also increased the level of concern Canadians are expressing about their current and future financial security and well-being, with a record number of adults planning to remain in their homes for as long as possible.

Our surveys found that:

- **75%** of Canadians aged 45 years and older say the pandemic has made them more concerned about their family's financial security and well-being. The pandemic has made Canadians nearing or at the start of their retirement the most concerned.
  - **77%** of Canadians aged 55-69 say the pandemic has made them more concerned about their family's financial security and well-being, compared to **75%** of Canadians aged 45-54 and **72%** of Canadians aged 70 years and older.
  - The pandemic has also made women more concerned than men. **79%** of Canadian women who participated in the survey reported being more concerned about their family's financial security well-being now, compared to **71%** of Canadian men.
- **79%** of Canadians aged 55 years and older believe current government-run and regulated retirement savings plans, such as Registered Retirement Savings Plans (RRSPs), CPP/QPP, and OAS do not provide adequate savings to prepare for a comfortable retirement.
- **23%** of Canadians aged 45 years and older report that they do not have adequate financial resources to cover living expenses for themselves in the next five to ten years.
  - Canadians aged 70 years and older are better prepared to cover their living expenses — only **19%** say they cannot cover living expenses for themselves in the next five to ten years, compared to **24%** of Canadians aged 55-69 years, and **25%** of Canadians aged 45-54 years.
  - Canadian men are also much better prepared to cover their future living expenses than Canadian women. **81%** of men aged 45 years and older reported that they had adequate financial resources to help cover their future living expenses for themselves, compared to only **72%** of women aged 45 years and older.
- **42%** of Canadians aged 45 years and older say they may be expected to help cover living expenses for loved ones in the next five to ten years.
- Yet, many Canadians report not being financially prepared to do so:
  - **47%** of Canadians aged 45 years and older report that they do not have adequate financial resources to help cover living expenses for their ageing parents in the next five to ten years.
  - **22%** of Canadians aged 45 years and older report that they do not have adequate financial resources to help cover living expenses for their spouse in the next five to ten years.

Canadians Want to Age in Their Own Homes for as Long as Possible, Yet Most Remain Unaware of the Costs

A previous NIA survey showed that 70% of Canadians aged 65 years and older report that the COVID-19 pandemic has changed their perspective on whether or not they would arrange for themselves, or an older loved one, to live in a nursing or retirement home.[19] In fact, Canadians overwhelmingly want to age in their own homes.

While most Canadians are projected to remain healthy and independent well into their later years, a significant minority will face increasing care needs that can become costly and long-lasting. The amount of support provided through publicly-funded home care programs will rarely be able to meet the in-home care needs of these individuals, requiring them to rely on the support of unpaid caregivers and/or additional privately-funded home care support. An NIA report recently found that 75% of care hours for older Canadians is done by unpaid caregivers,[20] and a 2016 Statistics Canada report found that among Canadians who receive formal home care services, only 52.2% had their home care costs covered solely by the government.[21]

The size of Canadian families has also decreased to a historical low, leaving many retirees without the unpaid caregiver support of their adult children or other family members or friends.[22] Coupled with increased life expectancy, this means that private home care services will be increasingly relied upon by retiring Canadians who want to age in place. The previously mentioned Statistics Canada report found that in 2016, 27% of home care recipients were already financing their home care services solely through personal out-of-pocket payments.[23,24] The NIA report also found that 8% of home care hours are, on average, financed from out-of-pocket.[25] However, if needed, most Canadians may not be able to afford to rely on private savings to cover long-term care costs and other expenses associated with ageing in place, especially for prolonged periods of time.

Our surveys found that:

- **44%** of Canadians aged 45 years and older report that the pandemic has caused them to consider receiving in-home care over receiving care in long-term care homes.
  - This sentiment is strongest among older Canadians, who are more likely to be retired already and need to consider these options. Indeed, **51%** of Canadians aged 70 years and older report that the pandemic has caused them to consider receiving in-home care over receiving care in long-term care homes.
- **37%** of Canadians aged 45 years and older say that they would consider borrowing money to cover the cost of receiving in-home care for themselves or their loved ones.

While Canadians seem increasingly willing to pay to ensure they can remain at home, our survey results suggest that many are unaware — or tend to significantly underestimate — the potential costs of ageing in place, including expenses related to in-home care.

Home care services can be costly, especially if the intensity and duration of care is over a prolonged or indefinite period of time. For example, the average cost of private in-home care services can range anywhere from $1,000 to $3,500 per month, this includes funding the support of private home care providers who can assist with a person's day-to-day care needs.[26] For high-needs individuals, who require continuous care and support, the costs become even more substantial. In Ontario, for example, the cost of receiving around-the-clock care from a personal support worker can run as high as $25,000 per month.[27]

Although provincial and territorial governments can fund home care services, current programs fail to provide adequate levels of support for many Canadians. For example, it is estimated that more than 150,000 Ontarians purchase an additional 20-million hours of home care services annually, above the amount provided through the public system.[28]

Our surveys found that:

- **49%** of Canadians aged 45 years and older believe that in-home care for themselves or a loved one would cost less than $1,100 a month.
- Only **37%** of Canadians aged 45 years and older believe that in-home care for themselves or a loved one would cost $2,000 or more a month.

While Canadians underestimate the costs of remaining and receiving care in their own homes, home care services can provide considerable cost savings to the public purse, relative to care received in a long-term care home. In Ontario, the Ministry of Health estimates that supporting a person in a long-term care home costs around $200 per day, equivalent to approximately $6,000 per month. On the other hand, the equivalent level of publicly-funded home care costs the government around $3,000 per month, a significantly lower cost to taxpayers.[29,30] If Canadians were better prepared to finance their retirement, and cover the costs of remaining in their own homes, there could be significant fiscal impacts to the public purse. Greater financial security could enable older adults to live where they please as they age, while simultaneously reducing public spending on institutional and long-term care.

Options Available to Canadians to Improve Financial Security in Retirement and Enable Ageing in Place

Many Canadians nearing or in retirement do not have the necessary savings to cover the costs of a comfortable retirement. Nor have they engaged in adequate financial planning to achieve the kind of retirement they want. While most adults plan to age in their own homes for as long as possible, many remain unaware of the financial realities associated with ageing in place. Effective solutions and a range of options are needed to augment the long-term financial security of Canada's ageing population. This is especially relevant for older adults in retirement. Canadians and their financial advisors need to be apprised of the full range of options, in order to make informed decisions. Individual and familial circumstances will affect which options are most suitable for older adults nearing and in retirement. Given the current gap between Canadians' desire to age and receive care at home and publicly-funded options, individuals will need to plan carefully and comprehensively in order to age in place.

Currently, most Canadians don't account for the need or costs of long-term care in their retirement planning. According to a 2012 survey, 74% of Canadians say they have no financial plan to pay for their long-term care if they need it.[31,32] Yet the universal and free provision of long-term care is not enshrined in the *Canada Health Act*. Nor is it fully covered by any of Canada's provincial/territorial health care systems.[33] As this NIA survey shows, many Canadians continue to significantly underestimate the price of home care and report being unable to cover costs for themselves or a loved one.

The following section outlines some examples of solutions and options that Canadians planning for their retirement can consider to supplement retirement income and fulfill their long-term financial needs. These options may enable more Canadians to maintain their living standards and enjoy a comfortable retirement at home. The key starting point, however, is for Canadians to take stock of how they want to spend their retirement years, where they want to live and receive care, and to take concrete steps to plan financially for their own futures.

In addition to the solutions currently available to Canadians, the NIA also identifies a number of policy options to improve Canada's retirement income system and financial security for adults approaching their retirement.

Understanding Some Existing Solutions to Support Financial Security in Retirement

Delaying CPP/QPP Benefits

One accessible solution to help boost retirement income highlighted in the NIA report *Get the Most from the Canada & Quebec Pension Plans by Delaying Benefits* is for Canadians to delay claiming their benefits from the Canada Pension Plan (CPP) or its Quebec counterpart, the Quebec Pension Plan (QPP).[34] CPP/QPP provide a worry-free monthly payment in retirement that keeps up with inflation and pays out of life. Canadians are not required to begin receiving CPP/QPP benefits as soon as they retire. Benefits can be taken as early as 60 years of age or as late as 70 years of age, and the benefit amounts are adjusted according to the age of the individual when they start receiving payments.

Delaying accepting one's CPP/QPP benefits comes with a sizeable financial advantage. First, the age-adjustment factors — applied between 60 and 70 years of age to the benefit calculation for all recipients — incentivizes delaying accepting one's CPP/QPP benefits. For every year of uptake before 65 years of age, benefit payments decrease by 7.2% per year up to a maximum reduction of 36% at 60 years of age. But, if benefits start after 65 years of age, then payments increase by 8.4% per year up to a maximum increase of 42% at 70 years of age (after which there is no additional advantage to delaying benefits).[35] Putting this together, waiting even a single year from age 60 to 61 increases benefits by 11.25%, indexed by inflation year after year, and waiting to age 70 more than doubles benefits. In other words, a $1,000 monthly benefit at age 60 increases to $1,112.50 per month if the person waits until age 61, and to $2,218.75 if the person waits until age 70 (indexed by inflation, for life).

Despite the advantages of delaying accepting one's CPP/QPP benefits, Canadians most often claim their benefits as soon as they are eligible at 60 years of age. More than 95% of Canadians have consistently started accepting their CPP/QPP benefits at 65 years of age or earlier.[36] In fact, fewer than 1% of Canadians choose to delay for as long as possible, to 70 years of age.[37] There are circumstances where delaying CPP/QPP benefits may not be advantageous or a viable option such as poor health and shortened life expectancy or insufficient savings to cover necessary living expenses. Yet, most Canadians can afford to delay accepting their CPP/QPP benefits. In 2009, for example, more than half of Canadians who took CPP/QPP benefits early could have delayed by at least a year. Moreover, as the NIA showed in its report, an average Canadian receiving the median CPP/QPP income, who chooses to take benefits at 60 rather than 70 years of age, is forfeiting over $100,000 (in current dollars) worth of secure lifetime income. Deciding when to take CPP/QPP is one of the most important financial decisions that retiring Canadians

must make. For workers in reasonable health, who can afford to do so, delaying the start of their benefits as long as possible is an advantageous financial strategy that is expected to get them the most from the program.

Leveraging Existing Home Equity Assets

For many Canadians, their primary residence is their most important asset and forms a substantial basis of personal net worth. From 1999 to 2016, growth in the prices of personal real estate accounted for 39% of the real growth in family-owned assets. Retiring Canadian homeowners can use home equity to generate retirement savings and enjoy a comfortable retirement. With the majority of Canadians wanting to age in place[38] — and many older homeowners saying they don't want to downsize their homes[39] — solutions that provide access to home equity, without having to sell the home, may be appealing.

1. *Home-Equity Line of Credit (HELOC)*
   One option for retiring Canadians looking to turn their home equity into retirement income is a *home-equity line of credit* (HELOC). Secured against the value of one's home equity, taking out a HELOC can provide flexibility and tax-free retirement income, where funds can be borrowed and repaid without penalties, up to a maximum credit limit.[40] The credit limit for HELOCs in Canada can go up to 65% of a home's purchase price or market value.[41] The drawbacks of HELOCs, however, is that borrowers in or approaching retirement have a hard time qualifying for them, primarily because qualifying requires proof of steady income and banks are unlikely to lend money to those who are no longer working or retiring soon.

2. *Reverse Mortgage*
   Another option for older Canadians looking to leverage their existing assets to help fund their retirement is a *reverse mortgage*. A reverse mortgage allows Canadian homeowners aged 55 and older to take out a loan against the equity in their home. Homeowners can borrow up to 55% of the current value of their home and do not have to repay the loan during their lifetime as long as they live in the home and have not sold it.[42]

   A reverse mortgage can help older Canadians fund their retirement by increasing the amount of money they have directly available, without having to make regular payments on the loan. With repayments only required when the homeowner sells, moves, or dies, reverse mortgages can provide retiring Canadians with a reliable way to sustain their living standards and cover expenses associated with declining health. This option therefore provides access to home equity without having to sell the home. In addition, because reverse mortgages are meant for borrowers aged 55 years and older, qualifying is much easier for retiring Canadians compared to HELOCs.[43] The money borrowed through a reverse mortgage is tax-free and also does not trigger the income-testing of OAS or GIS benefits. Reverse mortgages are less flexible, however, in that they require

one to commit to borrowing a certain amount of money. They are also typically more expensive than HELOCs, due to higher interest rates.[44] In 2020 alone, Canadian seniors accessed over $400-million in reverse mortgage funds.[45,46] Since 2011, there has been a 367% increase in the total amount of funds that Canadians have accessed through reverse mortgages.[47]

Purchasing Private Long-Term Care Insurance to Mitigate the Risks of Future Care Costs

Another way retiring Canadians can alleviate worries about the costs of care in later life is by purchasing long-term care insurance from a private insurance provider. Long-term care insurance provides financial protection in the event that one becomes unable to manage the activities of daily living without assistance.[48]

Generally, there are two types of private long-term care insurance plans in Canada; one reimburses eligible expenses that are incurred up to a pre-determined maximum amount and the other provides pre-determined monthly benefit payments.[49] Existing long-term care insurance plans also provide Canadians with the option to receive care either in the comfort of their own homes or in a long-term care or retirement home. This makes long-term care insurance a comprehensive and flexible option to cover care costs for retiring Canadians. In addition, long-term care insurance coverage could also help more older Canadians receive better care during their retirement and support ageing in place.

According to Canada's 2016 Canadian Community Health Survey, over 430,000 adult Canadians, of which more than 160,000 are Canadians aged 65 years and older, report having unmet home care needs.[50] However, Canadians with private insurance that covered all or part of their long-term care costs, are less likely to have unmet home care needs.[51] However, current offerings of private long-term care insurance are largely geared towards higher-income Canadians, who can afford fairly high and ongoing premiums. Even still, for Canadians who have the resources, and wish to avoid sudden, large costs associated with care at home, private long-term care insurance is an option that can help smooth steep costs in later life.

Policy Options to Improve Retirement Income Security in Canada

Shift the Provision of Publicly-Funded Long-Term Care Towards More Home and Community-Based Care

One clear solution to better support Canadians to age in their own homes is to shift away from institutionalized care towards more home and community-based care. Currently, there is an over reliance on using nursing homes to provide long-term care, rather than care provided in home-based settings which would allow more Canadians to remain in the community.

To accommodate both the needs and preferences of Canadians in the coming years, there is a need to expand the availability of and access to publicly-funded home and community-based services. Prioritizing home and community-based care would accommodate the full range of needs amongst Canada's older population, including Canadians who only need a few hours of care a day to age at home.

Federal, provincial, and territorial governments could redistribute the proportion of their current health expenditures towards the greater provision of home and community care. Currently, Canada spends comparatively less of its public investment in long-term care on the provision of home and community-based care, when compared with other Organization for Economic Co-operation and Development (OECD) nations. OECD data show that, across Canada, 87% of public investment in long-term care goes to nursing home-based care, while only 13% goes to home and community-based care.[52] On average, OECD countries spend 65% of their long-term care dollars on care in designated buildings like nursing homes and 35% on home and community-based care.[53]

Re-allocating more long-term care funding towards the provision of more home and community services would help to address current unmet needs. Over 430,000 adult Canadians are estimated to have unmet home care needs, of which more than 160,000 are aged 65 years and older — the equivalent of 2.8% of the Canadian population over 65 years.[54,55] Even among Canadians receiving home care, many are forced to rely on paid services to meet their care needs. Estimates suggest that only 52% of Canadians have their home care services funded solely by public sources, while roughly 35% have their home care services paid for solely out-of-pocket or by insurance coverage.[56] Reallocating long-term care funding to increase the proportion spent on home and community-based services would help to subsidize home care services while increasing supply. This would make home care more affordable and accessible

to Canadians while simultaneously increasing the efficiency of public long-term care spending.

In addition, governments could begin a deliberate policy of expanding their budgets and spending on publicly-funded long-term care, including home and community care. While government spending on the provision of long-term care is increasing across Canada, it has not kept pace with most other OECD countries. Canada spends 1.2% of its Gross Domestic Product (GDP) on publicly-funded long-term care health services, compared to an OECD average of 1.7%. This is well below countries like Denmark that spends 2.5% of its GDP on long-term care services.[57] Increasing spending on publicly-funded long-term care, in combination with a greater proportion of expenditures devoted specifically to home and community-care, would significantly expand provincial and territorial budgets for the provision of publicly-funded home and community care.

Consider the Development of a National Public Long-Term Care Insurance Program

Another potential solution the NIA is currently exploring is the creation of a public long-term care insurance program at the national level. The implementation of a national long-term care insurance program, in which Canadians would contribute to a pooled fund dedicated to covering future long-term care costs, could alleviate the financial burdens of ageing facing many older adults and an increasingly strained public system. NIA projections show that between 2019 and 2050, the cost of public care in nursing homes and private homes will more than triple, growing from $22-billion to $71-billion annually (in constant 2019 dollars).[58] These projections are based on maintaining the dissatisfactory status quo. Any increases in care quality and provision would further increase costs. In this context, policy makers will need to be creative and bold to meet the needs of an ageing population which has yet to peak demographically. National long-term care insurance should be a serious consideration.

Public long-term care insurance could be integrated into, or complementary to, Canada's existing provincial/territorial long-term care systems. For example, public long-term care insurance could be financed through an additional and separate contribution from employees and employers, like CPP/QPP contributions. Another financing mechanism could be to earmark provincial and national taxation revenue, similar to the way Canada's public health care system, Medicare, is financed. The goal would be to provide all eligible recipients with fully funded or reduced in-home or institutional long-term care services, matching their care needs and ability to pay out of pocket.

Successful examples of national public long-term care insurance models have been implemented in the Netherlands (1968), Germany (1996), Japan (2000), South Korea (2008) and Taiwan (2015). In 2019, Washington State approved a

long-term care insurance program, which will begin providing benefits to eligible recipients in 2025. All six examples finance their national long-term care insurance programs through a mix of payroll contributions, taxation, and co-payments determined by care need and ability to pay. Long-term care insurance systems in the Netherlands, Germany, Japan, and South Korea have been particularly successful in providing financial protection against long-term care costs, while also providing older adults with the autonomy to choose the type of care they prefer.

The Canadian context, however, poses some challenges to universal long-term care insurance that require thoughtful consideration and cooperation between federal, provincial and territorial governments, as well as the broader private and public sectors. As a federated nation, Canada lacks the ability to impose such a program centrally. Another challenge to overcome is intergenerational equity. Any universal long-term care insurance system would need to account for the current needs of an ageing population, without unduly burdening younger generations. Just as was seen by the recent enhancements to CPP/QPP, a new program like this would need to be funded – that is, without legacy expenses. As such, a long-term care insurance program does require long lead times and, begun now, would do very little to help the baby-boomer generation.

These, and other considerations, would pose a challenge to the implementation of universal long-term care insurance in Canada. Given the realities of our growing ageing population, and increasingly strained systems of public funding, it's an option that requires further consideration for future generations.

Promote Greater Financial Literacy and Encourage Canadians to Plan for Their Retirements Sooner

Promoting financial literacy, and encouraging working Canadians to start planning and saving for their retirement earlier, will also be key to ensuring retirees have greater financial security. Research from Canada, and around the world, shows that retirement planning is strongly associated with financial literacy. In Canada, estimates have found that those with higher levels of financial literacy are 10% more likely to have retirement savings.[59]

Overall, Canadians increasingly recognize the importance of saving for retirement. Results from Statistics Canada's *Canadians Financial Capability Survey (CFCS)* in 2019 found that 69% Canadians who are not yet retired are financially preparing for their retirement (either on their own or through a workplace pension plan), up from 66% in 2014.[60] In addition, 47% of Canadians report they know how much they must save to maintain their standard of living in retirement, a 10-point increase since 2014 (37%).[61]

The state of financial literacy appears to be comparatively strong in Canada. A 2015 Organization for Economic Co-operation and Development (OECD) survey, *Measuring Financial Literacy and Financial Inclusion,* ranked Canada as the third most financially literate country amongst 29 countries.[62] Yet the results of

this survey, as well as Statistics Canada's *Canadian Financial Capability Survey (CFCS)* in 2019, also show that there remain significant financial knowledge gaps between different groups in Canada.[63,64] In particular, financial literacy is highly stratified by gender, income and education, with women, lower-income workers and the less-educated Canadians having lower levels of financial knowledge and being less aware of the need to save for retirement, and therefore also at greatest risk of having to move into a long-term care home as they age.

Overall, it is becoming increasingly important to educate and encourage all Canadians to save for their retirement, a responsibility shared by individuals and the government.

Financial literacy can be acquired in many ways, by reading books and online resources, through financial education provided by employers, at school or in a community program, and with the assistance of professional financial advisors. For example, the federal government has developed a program called *Your Financial Toolkit*, which includes sections on retirement planning. The 2019 FCAC survey found that among individuals who took steps to improve their financial literacy, 80% saw a two-fold increase in their general financial knowledge, and 46% learned about retirement planning.[65]

A major component of financial literacy is to encourage Canadians to start saving for retirement earlier during their working years. A 2013 Ipsos poll conducted on behalf of RBC revealed that 24% of Canadians would start saving for their retirement between 25-34 years of age and 26% between 35-54 years of age. Moreover, only one in five Canadians would start saving for retirement before the age of 25.[66] Regardless of income level, starting to save earlier will help more Canadians to adequately save for a more comfortable retirement and with a greater likelihood to age in place.

The demand for home and long-term care services is expected to continue to increase, despite the fact that the overwhelming majority of Canadians want to age in their own homes. Therefore, promoting individuals to save for their retirements will alleviate future burdens on the long-term care system, while enabling more Canadians to remain at home for as long as possible.

Encourage More Private Sector Employers to Offer Workplace Pension Programs

Another opportunity for improving Canada's retirement income system is by increasing private sector workplace pension coverage, as investigated and explained in NIA's report *Filling the Cracks in Pension Coverage: Introducing Workplace Tax-Free Pension Plans*.

Outside of public programs, workplace pension plans are often considered the most effective vehicle to save for retirement. This is primarily due to several key attributes that workplace pensions offer, such as automatic savings structures, employer contributions, lower fees due to high plan enrollments,

potentially higher risk-adjusted investment returns, and long-term risk pooling.[67]

Among non-retired Canadians, 28% expect that their primary source of their income in retirement will be their own retirement savings, accumulated through a workplace pension.[68] However, workplace pension plan coverage rates have declined considerably over the past 40 years in Canada, with less than 40% of Canadian workers being covered by a workplace pension plan currently.[69]

Increasing workplace pension coverage would provide more Canadians with better opportunities to achieve income security in retirement by offering an additional and diversified source of retirement income.[70] It could also have the effect of limiting reliance on publicly-funded programs for older Canadians, relieving some of the inevitable burdens that provincial and territorial health and long-term care systems will face as the proportion of older and mostly retired Canadians to working Canadians more than doubles between 2010 and 2060.

Conceptually, workplace pensions allow workers to defer income, as well as taxes on that income, to a later age or time when they are not working, such as retirement. Although workplace pension plan benefits often come at the price of reduced take-home wages, they provide a more realistic and effective way to save for retirement than saving individually. Because they provide automatic, locked-in savings, workplace pension programs allow Canadians to avoid the tendency to spend all of what they earn. Behavioural economic biases show that people become accustomed to a certain level of take-home pay and adjust their lifestyle accordingly.[71] But when an employer automatically deducts savings for a workplace pension plan, this helps establish a person's "normative benchmark" lifestyle and can lead them to adjust their spending habits accordingly. Having an employer consistently save on a worker's behalf is an effective option to help Canadians build financial savings for retirement, while living within their means.

There are also compelling reasons for employers to support workers in saving for a more financially secure retirement. Supporting retirement readiness is valuable for an employer's reputation and can help attract and retain workers. Several surveys have demonstrated that Canadians are more willing to take a job with lower pay if there's a workplace pension plan being offered.[72] Younger Canadians, 18 to 24 years of age, also appear to be willing to give up part of their annual income to contribute pension savings.[73] Workplace pensions have been found to incentivize employee retention and loyalty. A 2015 Statistics Canada report, titled *New Facts on Pension Coverage in Canada*, found that 42% of men and 57% of women with over 15 years of experience with their current employer were covered by defined benefit pension plans.[74]

Overall, employee pension plans save up-front costs on employee wages and salary and help businesses both recruit and retain high-quality staff by offering more predictable and secure retirement income to employees. The demand for workplace pensions, along with their relative success in Canada, make the collective case for employers to continue expanding the provision of pension plans for their employees. With Canadians increasingly worried about saving enough for retirement, employers offering workplace pensions will likely retain a competitive edge as workers realize the benefits of pensions for supporting a financially secure retirement.

Expanding pension plan coverage can also promote a greater collective shared responsibility for maintaining and promoting health and well-being for all Canadians as we age. Some existing occupational pension plans in the public sector have begun to offer their pension management infrastructure and balance sheets as a means for private sector employers to continue to offer their employees cost-effective collective pension plans without underwriting future balance sheet risks.[75] At the same time, there are new initiatives targeting specific segments of Canada's labour market. New pension delivery organizations are beginning to offer collective low-cost, multi-employer retirement savings programs to employer/employee groups in specific segments of Canada's labour market sector.[76]

There are challenges with this option as well. Namely, the nature of work has changed in recent decades, making it less likely for workers to remain with a single employer and pension plan over the duration of a career. The so-called "gig economy" has contributed to a workforce landscape where people remain in one job for shorter periods of time. Employers are also less likely now than in the past to take on the liabilities of managing an employee pension plan.

Conclusion

The COVID-19 pandemic has magnified the systemic issues plaguing Canada's long-term care sector, shifting Canadians' perspective on ageing in their own homes. This sentiment has continued, as the results of these surveys revealed that more than half (51%) of Canadians aged 70 years and older report that the pandemic has prompted them to consider receiving in-home care, over care in long-term care homes. Yet most Canadians are financially unprepared for retirement and the realities of ageing in their own homes.

These surveys highlighted that more than one in five (23%) of Canadians aged 45 years and older do not have the financial resources needed to cover their living expenses for the next five to ten years, let alone late into retirement. In addition, many Canadians feel that the current retirement income support system is insufficient, with 79% of those aged 55 years and older stating that current government-run plans (such as RRSPs, CPP/QPP, and OAS) do not provide adequate savings to prepare for a comfortable retirement. The COVID-19 pandemic has only amplified these concerns, with 75% of Canadians aged 45 years and older concerned about their family's financial security and well-being.

Not only are Canadians increasingly financially unprepared for retirement, but they also underestimate the considerable costs often associated with ageing in place. Almost 50% of Canadians aged 45 years and older believe that in-home care for themselves or a loved one would cost less than $1,100 a month, far below typical figures for private home care and the current provision of government-funded home care.

It will require a collective effort by the government, employers, and individuals to improve the financial security of Canada's ageing population and help ensure that more Canadians can age with dignity and choice. It's unlikely in the short term that a single approach or option will plug the gap between what Canadians say they want, and what is possible. Given the stated desire of Canadians to age at home, all options should be well understood and considered, at the level of personal decision making, as well as that of government policy.

Individuals can make better use of existing retirement income programs, such as by delaying CPP/QPP benefits, better leveraging current home equity assets, and other private industry solutions like purchasing private insurance to protect against future out-of-pocket spending on care. Financial advisors and trusted friends and family can help shed light on the options available to Canadians and to inform decision making. It is clear that concerted planning is also essential.

Likewise, all policy options should be considered. This includes shifting the provision of publicly-funded long-term care towards providing more home and community-based care, the development of a national public long-term care

insurance program, promoting financial literacy, and encouraging more Canadian employers to offer workplace pension plans. For example, re-orienting Canada's long-term care spending from institutional-based care to home care services will improve the efficiency of public spending. The equivalent level of care costs approximately $3000 *less* when provided at home, compared to in an institutional setting. Increasing the number of Canadians who have sufficient retirement savings will also result in a lower demand for public programs overall. The combination of these policies will free up resources to better protect those with more complex needs and a low ability to pay for home care services.

The financial security of older Canadians will increasingly become an important public policy issue as Canada's population continues to age. It is of the utmost importance that governments, individuals, and workplaces are proactive in supporting Canadians to build long-term financial security as they age. While some of these larger policy options will require timing, coordination, funding and planning, Canadians ought to start developing their own strategies immediately. Doing so will support more older adults to fulfill their desire to age in place and more sustainable health and long-term care systems.

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