

The Forgotten Caregivers of Pension Reform*

Few things can be said with certainty in a rapidly changing world. But there is one thing we know for sure: The federal and provincial/territorial Ministers of Finance have not been talking about caregivers in their recent discussions on pension reform.

They should be in light of the aging population, growing demands on health care and increasing pressure on caregivers – Canada’s precious but under-valued resource.

The Finance Ministers have been debating several tough problems in the retirement income system. Three stand out: adequacy, coverage and certainty.

We are fortunate to have the Canada Pension Plan as the centrepiece of the retirement income system. But the CPP replaces in retirement only about 25 percent of pensionable earnings up to the average wage – for a maximum pension of \$11,520 in 2011.

This low ‘replacement rate’ was part of the original design. Created in 1966, the CPP was devised to provide relatively mod-

est benefits so that private pension and retirement savings plans would supplement the public base.

But the pieces of the pension puzzle have not fit together as intended. A shrinking minority of workers are covered by employer-provided plans. While 46 percent of the workforce participated in these plans in 1977, coverage had dropped to 38 percent by 2008. The problem is especially acute for workers in smaller firms, which rarely offer pension plans.

Low earnings replacement and declining coverage pack a double whammy: One-third of Canadians between ages 45 and 64 will likely have retirement incomes that are inadequate for supporting their standard of living. Moreover, Canadians’ savings are at a 30-year low, down from 20 percent of disposable income in 1980 to mere 5 percent today.

Finance Ministers are also discussing a third problem: lack of certainty. Along with the shrinking number of employers providing

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pension plans has come a shift away from defined benefit toward defined contribution plans.

Defined benefit plans mean that workers know precisely the value of their pension, based on earnings and years of service. Defined contribution plans, by contrast, mean that pension values depend on interest rates and stock market performance during the years that contributions were made. The year-of-the-bear stock market shows just how precarious this design can be.

The Finance Ministers were correct to focus on these weaknesses. Too bad their discussions missed another crucial and neglected problem: informal family caregivers whose employment earnings are substantially interrupted because they are caring for a relative with a serious illness or severe disability.

Millions of workers – primarily women – struggle with balancing their caregiving responsibilities and employment demands. With an aging population, there is concern that even more workers will have to reduce their working hours or leave their jobs altogether for a period of time to care for infirm parents. Many working caregivers supplement the assistance provided by formal services, such as home care, because of the short supply and/or cost of these supports.

While these millions of caregivers are crucial to the well-being of Canadian society, together they comprise not even a faint dot on the public radar screen. They contribute billions of dollars of care. Yet they are barely acknowledged, let alone rewarded, for their tireless efforts.

Fortunately, there is a promising remedy. The Canada Pension Plan currently recognizes one form of caregiving responsibility. Its child care drop-out provision allows workers whose CPP contributions were reduced while they were the primary caregivers of children under age 7 to drop that period from the calculation of their pension. They effectively are not penalized down the road for having carried out a crucial social role while in the workforce.

The same argument can be made for family caregivers. The current definition of caregiving in the CPP can be stretched to include the care of persons with serious illness or severe disability. Clearly, work would be required around eligibility criteria and other design considerations for this extended provision.

Other countries, including Australia, the UK, Germany, Norway and Finland, stave off income insecurity by providing some form of caregiver pension. Canada is missing from this map. Finance Ministers can take an important step to tackle this glaring omission by building on the strong CPP foundation already in place.

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