

EXECUTIVE SUMMARY



A fine line: Finding the right seniors' poverty measure in Canada

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In Canada, governments provide seniors with a spectrum of income supports and programs intended to maintain a baseline standard of living in retirement. For many years, the social safety net has been praised for producing lower poverty rates for seniors, as measured by the Market Basket Measure (MBM), Canada's Official Poverty Line. However, our understanding of seniors' income adequacy is often based on long-held assumptions about what an adequate life looks like in retirement and on "adequacy measures" that do not necessarily reflect the experiences of seniors.

In this report, we explore the question: **Are we accurately measuring seniors' income adequacy, and if not, how can we do better?**

We argue that the development of a seniors-specific measure of income adequacy is necessary to address seniors' poverty in Canada, as the MBM alone is not designed to do this effectively.

Existing measures are not well-suited to measure seniors' adequacy

In Canada, two adequacy measures, each with distinct methodologies, are used regularly to assess income adequacy:

- **The Market Basket Measure (MBM), Canada's Official Poverty Line:** This measures the cost of a basket of essential goods and services for a modest, basic standard of living, with thresholds defined based on a reference family of four and costed by region.
- **The Low Income Measure (LIM):** This is a relative measure, which means it is based on the quality of life of the general population. It is calculated using the median household income.

When looking at seniors' income adequacy, the MBM and the LIM present very different stories. The MBM shows that seniors are doing well—they are less likely to live in poverty than the general population. However, the LIM shows the opposite—that seniors are more likely to have low incomes than the general population.

Given that the MBM is the Official Poverty Line that decision-makers use to develop income security policy in Canada, it is imperative that it measures poverty as accurately and reliably as possible.

We raise three concerns:

- **The problem with “equivalizing”:** The MBM is initially calculated for a reference family of four consisting of two working-age adults and two children. That amount is then “equivalized” to determine the MBM of other family sizes using a multiplier. The MBM equivalization method has been criticized as an oversimplification that underestimates the poverty of small families, which includes almost all senior families.
- **Health costs are not included in the MBM basket:** To measure poverty, the MBM threshold is compared to a family’s disposable income. Of significant concern for seniors is that health-related expenses are not included in the MBM basket and are deducted from disposable income. This creates the perception that the income seniors need to live an adequate standard of living is lower than it is.

Furthermore, disposable income is complicated to calculate, so other definitions of income are often compared to the MBM instead. Because these definitions of income are typically higher than disposable income, some families of seniors may appear to live more adequately than they do in reality relative to the MBM thresholds.

- **The basket of goods and services is not designed for seniors:** The MBM basket is tailored to the needs of a “traditional” family of four, which are quite different than the needs of seniors. Some costs may be lower in retirement since most seniors no longer work. However, many of these lower costs are associated with seniors in good health—the cost of living increases with worsening health, which seniors face as they age. These additional costs are not accounted for in the MBM.

Challenging assumptions: The cost of living is not always lower in retirement

Building on our critique of the MBM, we review some of the key challenges associated with measuring seniors’ poverty. We challenge the assumption that basic needs become less expensive after retirement focusing on four issues:

- **Health costs:** It is often assumed that seniors’ healthcare needs are covered by medical supports offered by provincial or territorial programs. Yet many services are not included in those programs, which they must pay for out of pocket. A higher need for medical attention, a lower likelihood of having private insurance, and insufficient programs to meet age-related needs mean that a higher proportion of retired individuals will struggle to cover health-related costs.

- **Housing:** Another assumption is that housing expenses decrease significantly in retirement, and that many senior homeowners can sell this asset to boost their retirement income. However, the current Canadian housing crisis and ongoing drop in homeownership mean that seniors who do not have the privilege of homeownership may face uncertain living conditions and ever-increasing rental costs.
- **The growing savings gap:** In recent years, defined benefit pension plan coverage has been declining and defined contribution pension plans have become more common, indicating shifts in how seniors must balance their finances. Coupled with longer life expectancies, and an increase in precarious work, the need for additional assets to ensure income security throughout retirement years is growing, posing a challenge for those who may not have had access to these pension plans during their working-age years.
- **Marginalization:** Many seniors are impacted by life-long systemic inequalities related to gender, race, ethnicity, disability, sexuality, labour protections, and length of time in Canada. The experiences of marginalized populations do not necessarily align with those of the majority, and adequacy may look different materially. Understanding the experiences and needs of marginalized groups is necessary to create adequacy measures that are intersectional and accurate.

Alternative measures could provide a different perspective on seniors' adequacy

In this report, we look at what a seniors-specific adequacy measures can look like, both theoretically and in practice. We consider measures in three broad categories: Material deprivation indices proposed in Canada and the United Kingdom, the Elder Standards developed in the United States and Canada, and the Multidimensional measures used by the United Nations and the World Bank.

These alternative measures could help us define what adequacy looks like for seniors in retirement.

Recommendations

Currently, governments do not have the necessary adequacy measuring tools to ensure that seniors can live a life of dignity and have an adequate standard of living. The federal government needs to recognize this gap and improve the set of measures available for evidence-based policymaking. To achieve this, we recommend the following:

1. **Develop a seniors-specific measure of income adequacy.**
 - 1a. **If the federal government wants to use the MBM as Canada's Official Poverty Line, it needs to develop a seniors-specific MBM.**
 - 1b. **Alternatively, the federal government needs to invest in developing a new adequacy measure that is adjusted to the experiences of seniors in Canada.**
2. **The current MBM poverty rate of seniors should not be the sole adequacy measure used to evaluate retirement income supports.**
3. **Until a new seniors-specific measure is developed, the LIM should be used alongside the MBM to account for a diversity of seniors' experiences.**
4. **Governments should take a more multi-dimensional approach to thinking about seniors' adequacy.**

The MBM alone does not effectively measure income adequacy for seniors. We recommend that the federal government either develop an MBM for seniors or adopt one of the measures developed by researchers in Canada. It should also consider a multi-dimensional approach to measurement to implement intersectional and human rights-based understandings of adequacy. Until a new measure is developed, we recommend using the LIM as an accompaniment to the MBM to reflect a range of seniors' experiences.

For the full report, visit <https://maytree.com/publications/a-fine-line-finding-the-right-seniors-poverty-measure-in-canada/>.



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