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Pensions, Retirement, Longevity, and Long-term Care /
Pensions, retraite, longévité et soins de longue durée

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Guest Editors' Introduction: Pensions, Retirement, Longevity, and Long-Term Care

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Similar to other Organisation for Economic Co-operation and Development countries, Canada devotes a substantial share of its economic capacity to supporting and enhancing the well-being of elderly individuals. Much of the expenditure involves governments of all orders and at all levels, with policy interventions to support seniors that include direct government provision, tax assistance, subsidies and transfers, and the regulation of private-sector activity.

Among Canadians who view seniors as having earned the right to a dignified retirement, government support for seniors is appropriate from the point of view of compassion and fairness. Policy interventions are also justified from an economic efficiency point of view because seniors face many risks that are different in nature from those faced by younger people (see Milligan and Schirle 2013). Many risks facing seniors, such as those involving health, longevity, or the loss of a spouse, are not well covered by private insurance markets. Business cycle risks—which affect the value of retirement assets or raise the risk of unemployment—have different implications for older and younger Canadians. More generally, decision making carries risk; the average Canadian is not well equipped to fully understand the implications of complex decisions, such as portfolio choices and end-of-life planning. Interventions such as the provision of public insurance against risks may enhance economic efficiency by filling out the choice set available to seniors.

With all policy interventions, there is broad interest in improving efficiency, to allow the same spending dollars to fund a higher quantity or quality of service for Canadians. In addition to this usual concern with improving efficiency, demographic trends add more impetus. The strong tide of population aging motivates Canadians' immediate efforts to improve the effectiveness and operation of seniors' programs. The increasing number and share of seniors as the baby boom generation enters old age mean any gains in improving the operation of seniors' programs will have a larger payoff.

To provide context, we present population age shares for Canada. If one defines the baby boom generation as those born between 1946 and 1966, then baby boomers in 2023 will be aged between 57 and 77 years. The impact of this incoming tide of seniors on the Canadian population can be seen in Figure 1. We graph the realized and projected share of the population aged 65 years and older, 75 years and older, and 85 years and older from 2010 to 2050. The timing of the impact of the baby boom's arrival at different age thresholds seen in Figure 1 aligns roughly with different policy spheres.

The first policy sphere we have in mind is public and private pensions. Pension payments normally begin while people are in their 60s (and those in their 60s are not much more expensive than those in their 70s or 80s). So, the economic impact of pensions depends most strongly on the total number of seniors. As seen in Figure 1, this 65-and-older population share grows most sharply in the 2020s before starting to level off in the early 2030s.

The second policy sphere we have in mind is general health care. When people are in their 70s, the incidence of health problems begins to increase sharply. Correspondingly to this, the cost of health care also climbs quickly after age 70. For example, whereas per capita health expenditures for those aged 60–64 years are just over \$5,000 in 2019, and the expenditure on those aged 75–79 years is \$11,600 (Figure 2). So, when considering overall health care expenditures, the share of the population aged 75 and older is of high interest. As shown in Figure 1, this

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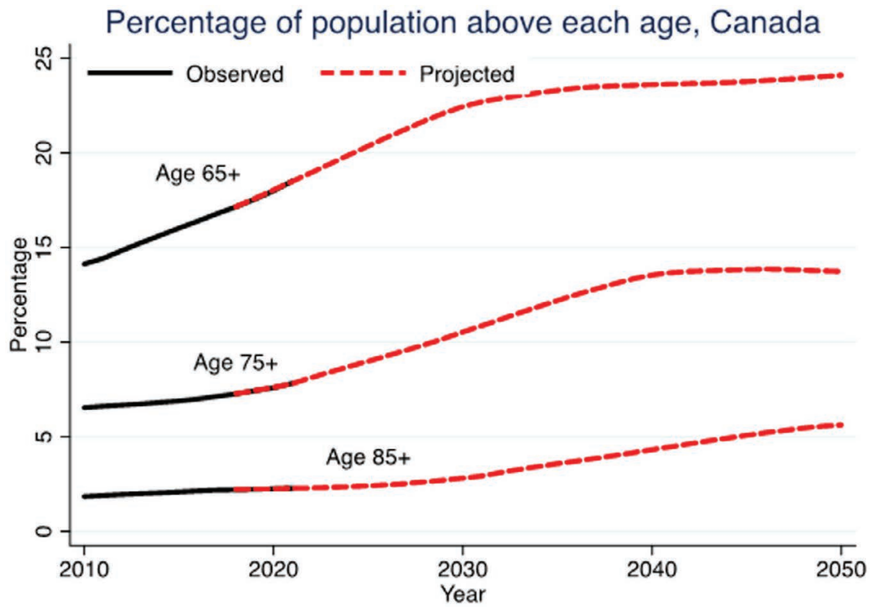

Figure 1: Percentage of the Population Above Each Age Threshold, Canada
Source: Authors' tabulations, based on Statistics Canada Tables 1700005 and 1700057.

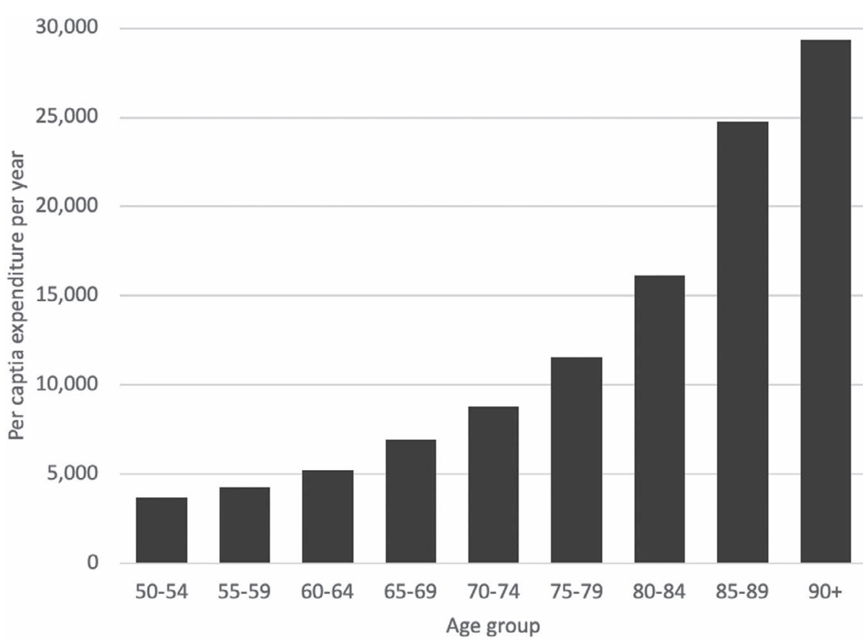

Figure 2: Total per Capita Provincial and Territorial Health Expenditures, Both Sexes, 2019
Source: Canadian Institute for Health Information, National Health Expenditures Database, Table E1.

75-and-older share rises in the 2030s and levels off in the 2040s.

Finally, those who survive to their 80s are often slowed down by impediments to activities of daily living such as basic mobility and the ability to dress and feed themselves. This leads to a sharp increase in the need for assisted living, home care, and long-term care (LTC), as well as end-of-life care, making the share of the population aged 85 years and older most relevant for this policy sphere. Figure 1 shows this 85-and-older share rising at an increasing rate through the 2040s. Of particular note is not just the rate of increase but also the level attained by this population share. By 2050, the share of the population aged 85 and older will be 2.5 times what it was in 2020.

With the sponsorship of the Global Risk Institute, we have assembled articles by leading policy scholars on the topics of pensions, retirement, longevity, and LTC. These articles are published in this special issue of *Canadian Public Policy* and in a second special issue to be published subsequently. This issue contains six articles, which we now have the pleasure of introducing.

The first article in this special issue, by Derek Messacar (2022), concerns the retirement decision, specifically the location and hence jurisdiction of retirement. Although provincial tax revenue depends largely on the size of the working-age population, spending—especially spending on health and LTC—is more concentrated among retirees. For provinces taking on the bulk of the pressure for funding health care, a fiscal challenge occurs when workers do not spend their retirement years in the same province in which they worked. In other words, if all Canadians were working in one province but moved to another province in retirement, a large fiscal imbalance would be created for the receiving province. Investigating the extent to which Canadians move across provinces at the time of retirement is therefore policy relevant. It has implications for the design of the tax and transfer program as well as for the equalization program. In his article titled "Inter-Jurisdictional Retirement in Canada," Messacar homes in on the size of migration flows around the time of retirement. He finds that these flows double at retirement and are driven by younger and higher-income workers who moved during their working years but eventually make it back home. He concludes that relative to total net migration, these asymmetries are not very large but that a closer look should be given to broader migration movements over the life cycle across jurisdictions.

Another predominant feature of retirement is the receipt of pension income. When pension income is compared with the income received during working years, researchers can calculate a replacement rate that shows the proportion of working-age income replaced by pension income. The replacement rate is a key metric used to assess the contribution of public pension income to the well-being of retirees. Previous research has used administrative data sources drawn from tax records to calculate replacement rates. The advantage of these administrative data sources is their long reach into the income history of an individual, which facilitates the calculations. However, administrative data do not have important measures of health and education because such measures are not recorded on tax forms. The article "Replacement Rates of Public Pensions in Canada: Heterogeneity across Socio-Economic Status" by Nicholas-James Clavet, Mayssun El-Attar, and Raquel Fonseca (2022) provides a novel analysis of replacement rates and education and health, using a data source that reports both long income histories and survey questions. They find that replacement rates are higher among those with more education and better health—more than can be explained by higher lifetime income alone. The authors find suggestive evidence that assortative matching of life partners plays a role in explaining their finding.

A set of articles in this issue concern the provision and financing of care for elderly people, which is important for current policy agendas focused on home care and LTC at the federal and provincial levels. A preference for receiving care at home seems to be widespread. But how can that shift be done? And how much does it cost? What are the key uncertainties that play into the cost–benefit of shifting from institutionalization to home care? In the article "The Future of Long-Term Care in Quebec: What Are the Cost Savings from a Realistic Shift toward More Home Care?" Nicholas-James Clavet, Réjean Hébert, Pierre-Carl Michaud, and Julien Navaux (2022) build a simulation model that provides answers to some of these questions for the province of Quebec. They find that a widespread shift to home care is not cost-effective. A more cost-effective shift should be targeted to those with modest limitations while utilizing other measures in place. Done that way, there is the potential to generate cost savings while increasing the amount of care provided. They discuss various scenarios involving the creation of autonomy accounts, which would allow patients to choose which type of care they want to receive.

Even if there is a shift toward home care, more beds in LTC homes will likely be required in the future. Currently, Ontario may be in need of 70,000 LTC beds, which could cost more than $20 billion to create. Hence, important funding issues need to be addressed. In "Addressing the Capital Requirement: Perspectives on the Need for More Long-Term-Care Beds in Ontario," Blair Roblin, Raisa Deber, and Andrea Baumann (2022) tackle the issue by conducting semi-structured interviews to understand the barriers faced by current LTC home owners in undertaking new construction. They identify various barriers, including poor access to capital funding, low returns on private capital, and differences in funding by ownership model. They discuss various policy options. In particular, they emphasize the possibility of separating funding between the capital cost of the infrastructure and the operational cost as one potential solution. They also propose adapting the current funding policy to account for regional circumstances.

Several provinces rely on the non-profit sector to provide care. But how is that sector doing, and will it be able to resist the coming surge in demand and services? In the article titled "Non-Profit Long-Term Care in Ontario: How Financially Robust is the System?" Lisa Halpern, Susan D. Phillips, and Nathan J. Grasse (2022) ask an important question and document interesting trends. They compile financial data from charitable tax returns (T3010) of 112

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charitable LTC homes from 2004 to 2017. They complete these data with information on each LTC home from reports and websites. From this substantial work, they find that the revenue of non-profit LTC homes is relatively stable but hides increasing vulnerability resulting from a greater reliance on government funding and a declining role for philanthropy. Given the long-term fiscal outlook of the province, this makes non-profit LTC homes' financial situation more fragile.

Finally, one of the important questions regarding an aging population is how to organize and provide end-of-life care. Many Canadians express a preference to die at home. Compared with a death at the hospital, death at home could lead to cost savings for governments. But to what extent is this feasible? Who is able to die at home? Catherine Deri Armstrong and Rose Anne Devlin (2022), in an article titled "Dying at Home: A Privilege for Those with Time and Money," use data from the Canadian Vital Statistics Death Records from 2007 to 2019 to look into this issue. They find that those who die in neighbourhoods in the highest income quintile are more likely to die at home. The authors draw conclusions for policy and discuss in particular the possibility of using acute care savings to subsidize the cost of home care for patients dying at home.

Together, these articles highlight many of the difficulties associated with funding retirement and elderly care in an environment in which the aging of retirees will be a serious challenge for several decades. They also consider potential opportunities that could be pursued to alleviate some of the pressure in the coming decades. There is an important need for more research on these issues, and it is fair to say that the data infrastructure related to retirement and long-term care is relatively poor. This limits the ability of researchers to answer policy-relevant questions at a time when it is most needed.

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