No pension savings crisis: Canadians have $7.1-trillion in net worth savings

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Canadians are saving a lot more than we have been led to believe. Thinkstock/Getty

Canadians have $7.1-trillion in net worth savings

Canadians have been told repeatedly by pension experts that we are not saving enough for our retirement and therefore will face difficult times in retirement unless contributions to the Canada Pension Plan (CPP) are increased.

These advocates, relying on behavioural economists, argue that Canadians must be forced to save significantly more through a major expansion of the Canada Pension Plan, often characterized as "big CPP," as Canadians clearly do not understand they are saving insufficient amounts to provide an adequate pension in their retirement.

We believe that Canadians are smarter than they are given credit and, more importantly, that the data simply does not support the conclusion. More specifically, we believe that the "inadequate savings" argument ignores a significant component of savings, namely the investment in real estate including principal residence, other forms of real estate and business ownership.

An analysis of Statistics Canada National Households Balance Sheet reveals some important data. Canadians have gross assets of approximately $8.8-trillion of which $3.5-trillion is held in primary and secondary residences and raw land (reflecting a home ownership rate of 69%), $3.7-trillion is invested in cash, mutual funds, equities etc. and $1.6-trillion is in registered pension plans. When the much debated indebtedness of Canadians of $1.7-trillion (of which two-thirds is mortgage debt) is subtracted, the personal net worth of Canadian households is approximately $7.1-trillion or $199,700 per capita.

This data reveals that Canadians have $7.1-trillion in net worth savings and not the $1.6-trillion pension savings claimed by pension critics. And more importantly, principal residence assets can be transformed into tax-free income that can be used upon retirement through "downsizing" to a less expensive home or community or using new financial innovations such as "reverse mortgages."

This exclusion of non-pension investment personal wealth from determinations of pension adequacy has been recognized by Statistics Canada in an article on *Income Adequacy in Retirement* by John Baldwin et al: "income as normally measured captures only part of what is available to seniors if households possess assets. Indeed, when after-tax estimates are used, the potential income per adult-equivalent in senior households exceeds the income of households headed by younger adults."

Older people can and do use their home equity during their retirement

Moreover, according to the Statistics Canada 2008 Survey of Household Spending, 43% of Canadians had no mortgage while the mean age of those Canadians mortgage free was 62. In other words, significant amounts of home equity are (logically) skewed towards older people for they have had much longer periods of time for the property to increase in value and to reduce or eliminate debts. And it is older people who can and do use their home equity during their retirement.

Some may argue it is unfair to expect Canadians to downsize or to obtain a reverse mortgage or even sell their home during their retirement years. Yet the justification for a larger CPP has been grounded on the assumption that Canadians are not saving enough for retirement. This argument fails to recognize that many Canadians view their home as a nest egg just like any other forms of wealth , e.g. RRSPs, financial investments, which can be converted to cash and used during retirement years. Even more importantly, they are smart enough to recognize that investment in their principal residence is free of taxation. The wealth classification of "pension savings" is not intrinsically financially or morally superior to wealth classified as "real estate equity" or "mutual funds" or "GICs" or "business ownership."

It has also been argued these aggregate statistics exclude those in the bottom quintile who may not own their own home and thus cannot avail themselves of home equity. While this may indeed be true, researchers such as Professor Kevin Milligan at UBC have shown that the bottom quintile actually do better in retirement due to OAS, GIS and CPP and their pension income is typically higher than the income earned in their working years.

This observation is further validated by the OECD Pensions at a Glance that showed only 5% of elders in Canada were below the poverty line – the fourth lowest elder poverty rate in the world. Moreover, Canadians in the lowest quintile would be hard pressed to save a higher percent of their income when they may not need more than what they would receive from OAS, GIS and CPP.

Thus, the claim that Canadians are not saving enough for their pensions ignores how smart Canadians actually are and what the data is telling us. Behavioural economists and pension advocates should analyze the empirical savings behaviour of Canadians more closely.

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