THE GLOBE AND MAIL

ROGER MARTIN

How Canada can avoid France's retirement woes

Roger Martin
Special to The Globe and Mail
Published Wednesday, Nov. 03 2010, 5:00 AM EDT
Last updated Thursday, Aug. 23 2012, 4:12 PM EDT

As we know, working is not particularly popular in France - certainly not for more than 35 hours a week and certainly not in August, and apparently not past 60 based on the million-person marches in that country. Fortunately, Canada is in a much better position to address the retirement-age issue pro-actively and cleverly. We have a well-funded system that doesn't require a quick fix.

The idea of a 65-year retirement age in 2010, let alone in the future, is plainly silly - silliness we can blame on Otto von Bismarck, who established a social security system in Germany in the late 19th century and needed to declare a retirement age, which he set at 65. In the late 19th century, life expectancy was below 50, and hardly anyone made it to 65, so the Iron Chancellor's government paid out only a pittance under the program.

When the United States created its social security program in 1935, it copied Bismarck and set the retirement age at 65, with average life expectancy still below retirement age at 61.7 years. In 1965, we reflexively copied the Americans and set retirement at 65 for the Canada Pension Plan, even though, by then, life expectancy had hit 70 - producing a dramatically different pension liability than the Germans or Americans generated for their treasuries when they chose 65 as their retirement age.

As pretty much everyone knows, life expectancy has continued to rise, hitting 81 in Canada. No one ever designed our pension system for about 40 years of work to fund 20 years of retirement. That math, on its face, is silly. And with the judicial end of forced job retirement and greater vitality at older ages, there are going to be more and more Canadians collecting government pensions while working full time - also neither contemplated nor sensible.

Now is the time, while things are going well and workers aren't berserk like in France, for Canada to put in place a very long-term fix that balances the greater life expectancy of younger Canadians with the requirement for funding their pensions.

Set 75 as the target retirement date and increase each person's retirement age by an amount inversely proportional to their current age. For children between 0 and 4 as of Jan. 1, 2011, their retirement age would be 75. For each year of age greater as of Jan. 1, 2011, the retirement age would be two months earlier. For an 18-year-old, it would be 72 years 8 months. For a 40-year-old, 69 years. For a 54-year-old, 66 years 8 months, giving me 11 years to prepare to work for an extra 20 months. (I think I can manage that.) For a 60-year-old, it would require another eight months of work, and for a 64-year-old, nothing extra.

This would fix a long-run problem in a long-run fashion and would make the size of the individual contribution to the solution proportional to the time available for the individual to make that contribution. It would take 60 years to move us from 65 to 75, by which time we'd have to move again. But it would put us way out ahead of every other country on the planet and be a model for all of them to follow.

Roger Martin is dean of the Rotman School of Management at the University of Toronto.