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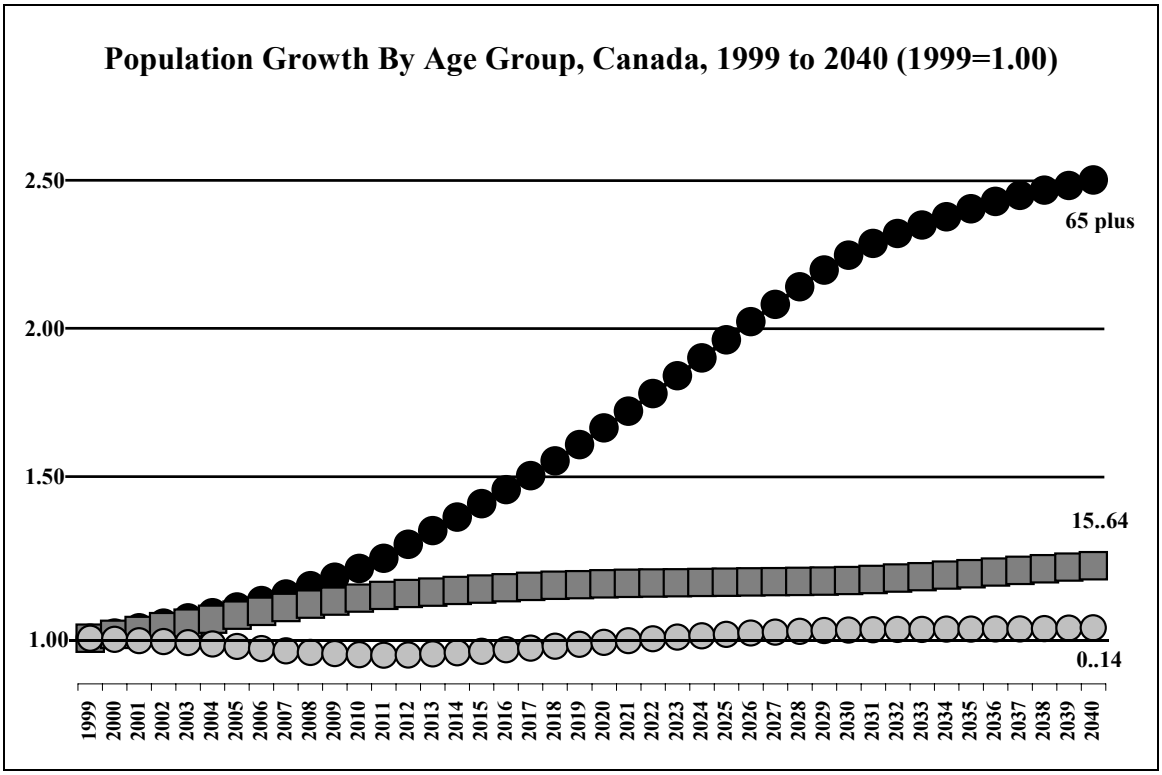
Changing Places:

A Strategy for Home Ownership, Residential Neighbourhoods, and RRSPs in Canada

By David Baxter, Jim Smerdon and Andrew Ramlo
The Urban Futures Institute



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Abstract

Today one in eight people in Canada is 65 years of age or older: this ratio will increase continually in the future to reach one in four people within four decades. If the quality of Canada's intergenerational transfers – particularly income supplements and health care – is to survive the rapid growth in the beneficiary population, individual Canadians must be given the opportunity and encouragement to save as much as they can for their retirement.

This report proposes adding to Canada's current RRSP options a Retirement Income and Home Ownership Plan (RIHOP). The core concept of the RIHOP is simple: when a household downsizes by selling its principal residence and acquiring another one at a lower price free and clear of mortgage debt, the members of the household would be eligible to put the entire difference between the net proceeds of the sale of the old house and the full acquisition costs of the new one into their RRSPs.

The plan will encourage people to downsize and remain as homeowners, free and clear of mortgage debt, thereby ensuring the security of home ownership. By putting the net proceeds into their RRSPs, householders will diversify their retirement portfolio, increasing the income earning portion of the portfolio and reducing the home equity portion. This in turn will reduce the occurrence of "house rich, income poor" seniors, thereby lessening the demand for intergeneration incomes support transfers in the future. It will also lead to a more efficient use of urban land resources through a better matching of housing needs and housing occupancy.

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by David Baxter, Jim Smerdon and Andrew Ramlo, February 2000

Summary

An aging population in Canada will cause a significant increase in the demand for intergenerational transfers – particularly health care and incomes support – from a slowly growing working age population to a rapidly growing elderly population. The increasing divergence between the growth rates for these age groups has recently been referred to as a demographic time bomb that threatens Canada's social service plans, requiring immediate changes to defuse it. Given the long and increasing life expectancies of Canadians, there are only two feasible strategies to pursue in seeking solutions to the impending problems: reduce the need for, and increase contributions to, intergenerational transfer programs.

Increasing the amount of money individuals save for their retirement will reduce the level of reliance on intergenerational transfers in the future: increasing RRSP contributions is one way to do this. The majority of Canadians either do not have a RRSP or do not contribute the full amount they are eligible to. As a result, increasing contribution limits, while encouraging saving, will not address the issue of those Canadians who do not use any or all of their current contribution allowance. To increase the number of Canadians who save for retirement, and the amount that they save, it will be necessary to motivate them to save, and to increase the amount of money they have to save.

Growth in the number of people of working age will expand the financial base for transfer programs by increasing the number of contributors, both directly to programs such as the CPP, and indirectly through taxation. As the impact of an aging population will begin to be felt within the next five years, and fully felt within the next thirty, given Canada's low birth rates, growth in the contributory population will mainly rely on net inward international migration.

Increasing the contributory population will increase the total population, which in turn will increase the demand for urban housing and infrastructure. This will continue to raise concerns about the economic and environmental consequences of urban expansion, and about the efficiency with which existing urban land and infrastructure are used. The increased demand for housing offers the potential for both reducing the need for intergenerational transfers and improving the efficiency of land and infrastructure use. The potential lies in strongly encouraging empty nesters - the 45 years of age and older mortgage free owner occupiers of single detached houses with more bedrooms than people in them - to better match housing occupancy and accommodation needs. By downsizing, the empty nesters will, directly and indirectly, assist in achieving a more efficient use of urban resources. Such encouragement can be provided by ensuring that, by downsizing, the empty nesters will remain as debt free owner occupiers (thereby retaining housing security) and still be able to make a large contribution to their RRSPs. This would result in greater private saving for retirement, and less need for income support in the future.

This report proposes adding to Canada's current RRSP options a Retirement Income and Home Ownership Plan (RIHOP). The concept of the RIHOP is simple: when a household sells its principal residence and acquires another one at a lower price free and clear of mortgage debt, the members of the household would be eligible to put the entire difference between the net proceeds of the sale of the old house and the full acquisition costs of the new one into their RRSPs. As neither the net equity returned, nor the net capital gain realized, from the sale of a principal residence are taxable, none of the RIHOP funds transferred into the RRSPs would be claimed as a deduction for income tax purposes. Once the RIHOP funds were in the RRSPs, the income earned on them would not be subject to income tax until the income was withdrawn from the RRSP. As the RIHOP funds were transferred in without being deducted from income, there would be no income tax charged on them when they were taken out.

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Dimensions of the Problem

1. For every person aged 65 plus in Canada today, there will be 2.21 persons of this age in 2028, and 2.51 in 2040. This 151% increase in the elderly beneficiary population will not be matched, or even approached, by the increase in the contributory (15 to 64) population, which will increase by only 19% between now and 2028, and by 24% by 2040. Canada has about 5 years to put in place the programs that will fund the rapid real growth in intergenerational transfers that will be required as a result of the 65 plus population increasing from 1 in 8 people in the country today to 1 in 4 within the next 40 years.

2. The single largest source of incomes for the 65 plus population in Canada is transfers (including CPP) from governments. While 13.9% of the income of all Canadians comes from government transfers, 43.5% of the income of the 65 to 74 year old population, and 48.6% of the income of people aged 75 plus, comes from government transfers.

3. Sixty-one percent of the people who filed income taxes in Canada in 1997 did not contribute to either a RRSP or to a private pension: removing the under 25 and 55 and older taxpayers from the data still shows that almost half (47%) of the tax filers aged 25 to 54 contributed to neither a RRSP nor a private pension. Of the taxpayers in Canada who were eligible to make RRSP contributions in 1997, 64% did not do so. Another 22% did make a contribution, but one of less than half of the maximum of the new contribution that they could have made. Only one in seven used 50% or more of their contribution room, with 1 in 40 using between 50% and 74%, 1 in 50 using between 75% and 94%, and 1 in 10 using 95% or more. The higher the individual income, the greater the percentage of RRSP room used.

4. If age specific per capita health care expenditures remain constant, real health expenditures in Canada will increase at twice the rate of the population over the next four decades. In constant dollars, for every dollar spent on health care in Canada in 1994, there will be $1.84 (an 84% increase) spent in 2035. With no inflation, no change in spending patterns, and no increase in consumption of health services, the per capita expenditure on health care in Canada will increase by 31% between 1994 and 2035. Public sector health care spending in Canada is a “pay as you go” system, with tomorrow’s contributors paying for tomorrow’s beneficiaries.

5. The demand for housing, and particularly for single detached housing, will increase faster than the projected 36% increase in population between 1999 and 2040. There will be occupancy demand for 5,941,000 (52%) more dwellings in Canada over the next four decades. The demand for single detached units will increase by 55% (3,231,700 more units), for other ground oriented units by 39% (913,600) and for apartments by 57% (1,795,700 more units).

6. In Canada in 1996, there were 3,383,345 people living in 1,795,120 owner occupied single detached dwellings with household maintainers aged 45 and older that had empty bedrooms. In these dwellings, there were a total of 6,035,055 bedrooms, 2,651,710 more than the number of people living in the dwellings: 44% of the bedrooms in single detached owner occupied dwellings with empty bedrooms and maintainers 45 years of age and older, and 25% of the bedrooms in all single detached owner occupied dwellings with maintainers 45 years of age and older, were empty. Of a total of 28,245,940 bedrooms in occupied dwellings in Canada in 1996, 4,924,360 (17%) had no one sleeping in them: 54% of the empty bedrooms were in single detached owner occupied homes whose maintainers were 45 years of age and older. There are a lot of empty nesters in Canada.

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I. Introduction.

Canada is experiencing the beginning of what will be it's second great demographic transition: the entry of the Second World War Babies and the Post War Baby Boom cohorts into the seniors stage of the life cycle. The changes and challenges that this transition will bring are already found in the news: every day the media report on the issues generated by an aging population. Examples of these issues include increasing demands for health care funding, increasing waiting lists for health services, and increasing contribution requirements for pension plan funding; people not saving enough (and not being able to afford to save enough) to build the RRSPs that will reduce the load on the public system and provide them with a more than minimum income in their golden years; seniors who are home owners in markets where prices are rising not being able to pay their property taxes; seniors living alone, feeling vulnerable and cut off from their community; and impending labour shortages due to the retirement of professors, doctors, nurses, teachers, and trades people.

These issues are not unique to Canada. Recent international reports have commented on the issues of an aging population in, for examples, Europe, Japan, Sri Lanka, Latin America and the United States: these reports have also given particular emphasis to the challenges for pension plans, labour markets and health care systems. Japan provides perhaps the purest examples of the issues that stem from population aging: it has distinct and highly concentrated post war baby boom and echo baby boom generations, long life expectancies, a below the replacement level birth rate, and no immigration[1].

Japanese government projections indicate that the country's population will begin to decline in size by the end of this decade, reaching 80% of its current size by 2050, and that the number of people 65 years of age and older will increase by 50% while the number of people of working age (between 15 and 64) will decline by 37% over the next 50 years. With a growing older population and a declining younger population, the character of Japan will change dramatically. Today in Japan there are 252 people aged 65 and older for every 1000 people of working age: in 50 years there will be 591 people 65 and older for every 1000 people of working age. Today there are 1.2 persons aged 65 plus for every child in Japan: in 50 years, there will be 2.5 persons aged 65 plus for every child.

What makes these numbers relevant is the age specific nature of contributions to, and benefits of, social services systems. These systems are to a very large extent "pay as you go" systems, where benefits paid today are funded out of today's taxation and contributions. In terms of health and pension plans, the older (65 plus) population is generally the beneficiary population, with the working age (15 to 64) population being the contributory population. When the contributory population is large relative to the beneficiary population, (a low beneficiary ratio), inter-generational social service transfers are generally fundable. However, when the ratio increases rapidly as a result of the number of beneficiaries increasing faster than the number of contributors, the required growth in contributions may become unsupportable.

In countries which experienced a post world war two baby boom, and which have low birth rates and long life expectancies, beneficiary ratios have been relatively low and constant over the past thirty years. Intergenerational transfers, therefore, have been relatively easy to support, as the population in these countries has been characterized by a large and rapidly growing working age

population and a small beneficiary population. The next thirty years will be much more difficult in terms of intergenerational transfers, as they will be characterized by a slowly growing (and in countries such as Japan, a declining) working age population and a rapidly growing older population, causing beneficiary ratios to increase dramatically. The extent of the impact of this aging of populations on inter-generational transfers will depend on the relative difference in the rate of growth of the contributory and beneficiary populations.

The growth rate of the beneficiary population will be largely determined by life expectancy of the country's current adult population, and hence can be predicted with relative certainty. It is in the prediction of the rate of growth of the working aged population that variance may occur. As a base, the domestic component of the growth of the working age population is also predictable with relative certainty, as it will be determined by the aging and mortality of the people already in the country in younger age groups plus births to the current resident population: as birth and death rates within the resident population are well documented, the domestic component of future change in the working age population can also be projected with reasonable accuracy.

In countries such as Japan, there is only a domestic component to population growth, and hence, barring radical change, the dramatic aging of its population is predictable. It is this situation that makes the demographic future of Japan relatively certain: its births rates are among the lowest in the world (and there is no case to be made for them increasing), mortality rates are low (and if anything will continue to decline), and there is essentially no net immigration or emigration.

In Canada, there are currently 183 people 65 years of age and older per 1000 of working age. If our demographic future were, as it is in Japan, dependent solely on domestic factors, in 2040 there would be 29,304,100 people in the country (4% fewer than today's 30,573,000), 8,202,300 of whom would be 65 plus (more than twice today's 3,794,200). This would almost triple (a 161% increase) the beneficiary ratio to 477 people 65 plus per 1000 of working age by 2040, the result of the population aged 65 plus increasing by 116%, and the working age declining by 17%.

In countries such as Canada, immigration and emigration, both overwhelmingly comprised of young adults, will alter the future growth of the working age population. The net inflow of younger people that results from international migration will narrow the gap between the rate of growth of the beneficiary and contributory populations. Given projected immigration and emigration trends, in 2040, there will be 41.5 million people in Canada, 9.5 million of whom will be 65 plus, for a beneficiary ratio of 370 people 65 plus per 1000 people of working age. The number of people 65 plus will increase by 151% and the working aged population by 24%, and as a result the beneficiary ratio will increase by only 102%.

The lower beneficiary ratio is the result of the growth of the working aged population. Net migration has little impact on the size of the 65 plus population because most migrants are under the age of 35: it has a big impact on size of the working age population. In order to slow the rate of growth in relative burden of supporting an aging population with pay as you go social programs, the load must be spread over more workers: otherwise the only feasible option is to cut the benefits of the programs.

Thus, unlike countries such as Japan, Canada will be able to offset some of the burden of an aging population through net migration of young people to this country. This will mean that our relative beneficiary load will be less: it also means that our population will grow. This in turn means that we will continue to deal with a perennial media issue, that of growth and change in urban areas. Rarely does a day go by that there is not a reference in Canada's newspapers to issues such as agricultural land being converted to urban uses; land and resources committed to new infrastructure while existing infrastructure goes underutilized; kids in suburban schools

being educated in portables while classrooms are empty in central communities; increasing commuting distances, congestion, and air pollution; and decreasing housing affordability for new families. It is the rapid growth of our older population, and the accompanying significant growth in intergenerational transfers, that leads us to encourage a growing younger, working aged population, which in turn means that we must plan for growth and change in urban communities.

The links between a rapidly growing beneficiary population and the need for a growing younger population to provide contribution are known and accepted: the logical consequence of a growing urban development to accommodate the resultant growing population is also known, if not as well accepted. What are not well known are the links between the growing beneficiary population and urban development.

Some of the links between an aging population and urban development issues are implied in the stories in daily newspapers. They are indicated by articles on topics such as seniors being unable to pay their property taxes; new families having to commute long distances to find housing within their price range; and seniors living alone, feeling vulnerable and cut off from their community. A range of factors have combined to create a situation in urban areas today where many seniors are over housed, house rich but income poor, and living alone in neighbourhoods close to places of work while young labour force participants with families must travel long distances to find starter housing. With the aging and growth of Canada's population, without a change in the factors that create these situations, such urban development issues will increase significantly.

Changing the factors that create these situations offers the potential to improve the lot of the both the older and younger population and to increase the efficiency of the use of urban land resources. This can be done by encouraging a better match of housing needs and housing consumption in a way that will give many seniors households more retirement income while maintaining their status as debt free home owners. This potential is expressed in the Retirement Income and Home Ownership Plan (RIHOP) proposed later in this report. Before examining the potential of this grandchild of the RRSP and the RHOSP, it is necessary to first outline the forces that will shape Canada's population over the next forty years, the challenges this will offer both generally and specifically with respect to housing, and age specific housing occupancy patterns.

II. Population Change in Canada[2].

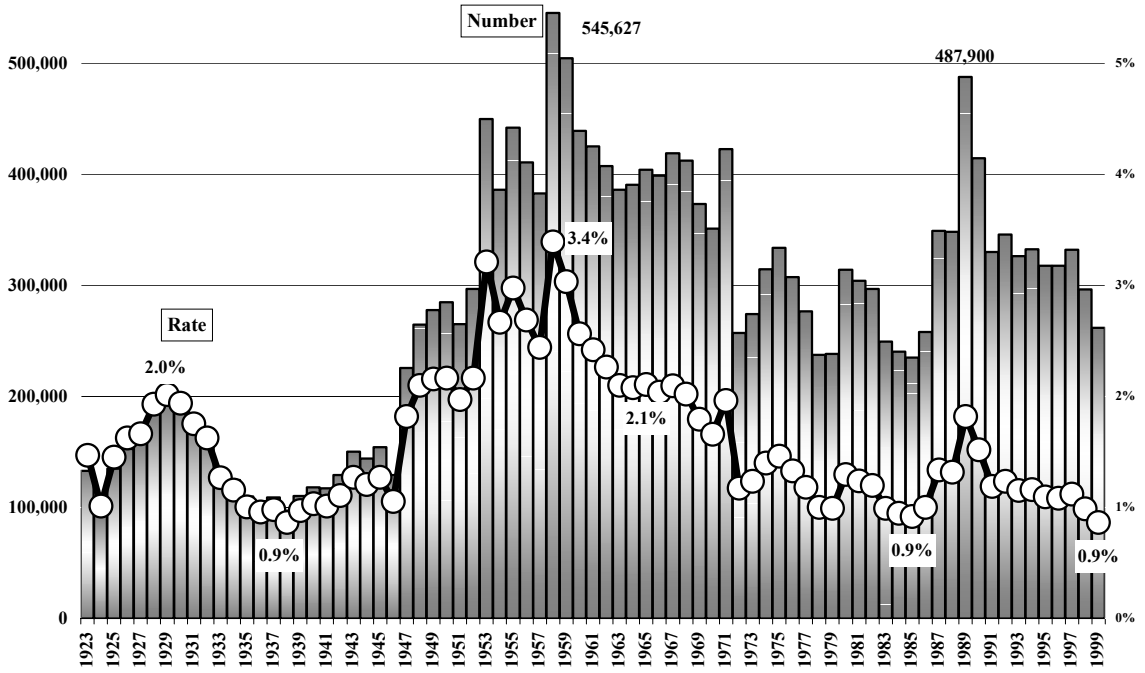
Historically, when change in Canada's population was discussed, it was about growth and how to accommodate it: now, and for the next half century, discussions will focus much more on aging, and the demands that this will put on social services. There are two fundamental reasons for this shift. The first is that the country's population is growing at a much slower rate than it has averaged in the past, and is now at a low level experienced before only during the Great Depression of the 1930s and the Recession of the early 1980s. The second reason is that a very large portion of the country's population, the Second World War Babies and the Post War Baby Boom Generation, will, over the next three decades, age into the 65 plus population, the stage of the life cycle where traditionally Canadians have been net beneficiaries of social programs such as health care, CPP, Old Age Security, Guaranteed Income Supplement, Spouse's Allowance, Widowed Spouse's Allowance, federal non-refundable tax credits, and various provincial senior's benefits, supplements, and allowances.

In this section, three aspects of population dynamics in Canada are considered. The first is a description of our population today and the factors that shaped it. The second is a consideration of the effects of natural increase alone (a no net international migration scenario, much like the reality of Japan). The third is consideration of a projection of Canada's population assuming that international migration follows its historical trends.

A. The Present and Past of Canada's Population

There were 30,574,000 people in Canada in 1999. The country's population reached 10 million in 1929, took forty years to double to 20 million in 1968, and another 30 years to add the next 10 million, reaching 30 million in 1998. While the population of Canada has always increased (Figure 1), there has also always been variance in annual growth, ranging from a high of 545,600 (in 1958) to a low of 91,000 (1924). Since the end of the Second World War, annual population increases have averaged 344,000 people per year. The rate of annual growth in the post-war years has varied from a peak of 3.4% in 1958 to lows of 0.86% in 1938 and 1999.

Figure 1: Net Annual Population Growth, Canada, 1922 to 1999

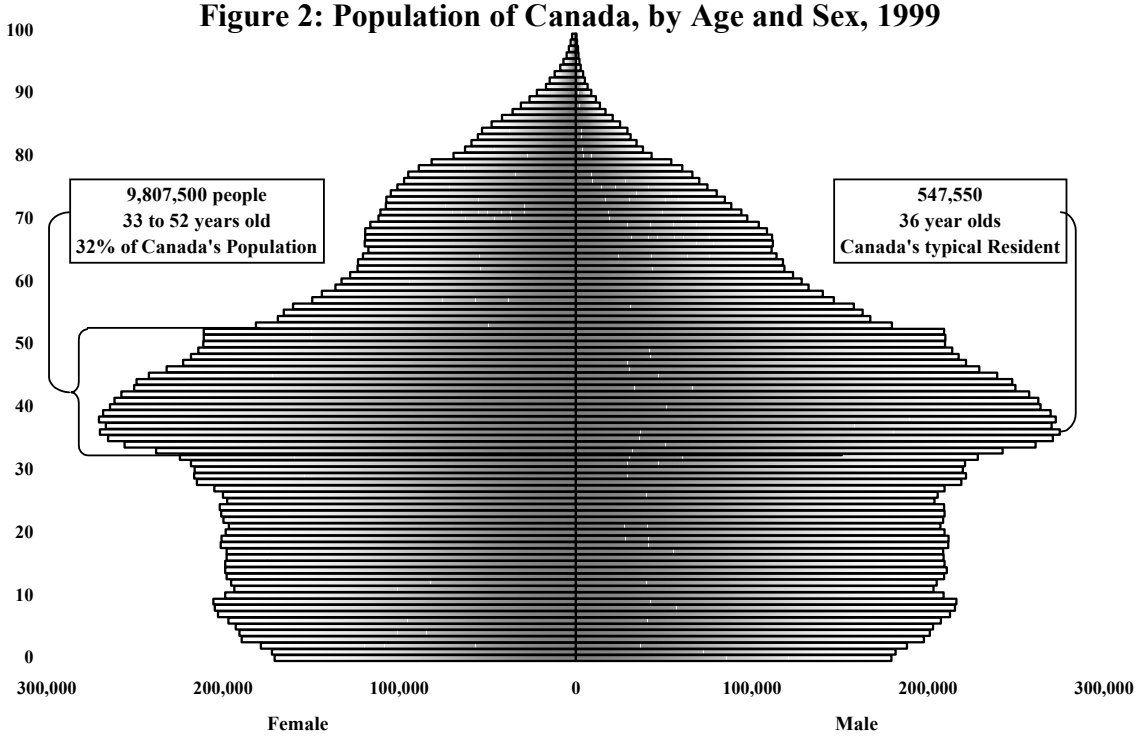


During the 1950 to 1970 period, Canada's population increased by an average of 400,000 persons per year, the result of a high rate of natural increase (the birth of the Baby Boom Generation) and strong immigration. With relatively constant absolute growth, annual percentage growth declined from the 3% per year range in the 1950s, to 2% by the mid 1960s, and to 1.7% by 1970. Since 1970 Canada's population has grown slowly, averaging 1% per year over the past quarter century. In absolute terms, growth in the 1970s and 1980s was the slowest in the post-war period, with an annual average of 291,000 people per year added to the country's population. The 1990s have seen slightly higher absolute growth (335,000 per year), although the average annual rates were the same 1% in both periods.

The typical Canadian in 1999 was a 36 year-old (Figure 2): there were 547,550 people aged 36, more than the number of people of any other age. Of the 36 year-olds, there were 276,145 males and 271,403 females, so the typical Canadian was a 36 year old male. (Note that the typical Canadian was female, as there were 15,127,100 males and 15,435,200 females in Canada in 1999.) The average age of a Canadian in 1999 was 36.7, 36.0 for males and 38.0 for females. Half of the population in Canada in 1999 was under 36 years of age.

Canada's population demonstrates a distinct "baby boomer bulge" age profile. The Baby Boom Generation was born between 1947 and 1966 (or 1946 and 1965, or a number of other combinations in this range, assuming that a generation is a 20 year age group). This means that in 1999 baby boomers were between the ages of 33 and 52, with the 9.8 million people in this age group accounting for 32% of the country's population. There were 5,288,300 people aged 33 to 42 and 4,519,200 aged 43 to 52. The bulge of the baby boom is made up of 35 to 39 year-olds, with over 539,000 people of each age in this 5-year age group in 1999. The typical Canadian in 1999 was the typical 36 year old baby boomer.

Figure 2: Population of Canada, by Age and Sex, 1999



The generation before the baby boom, now aged 53 to 72, is smaller than the baby boom, the result of the very low level of births that occurred in the 1930 Depression and pre-War period: 17% of the population was in this older generation in 1999. The generation following the baby boom were 1999's 13 to 32 year olds: this generation is also smaller than the baby boom generation, the result of the low level of births that urbanization and the birth control pill brought to the 1967 to 1986 period. Twenty-seven percent of the population was in the 13 to 32 year-old age group in 1999. The remaining population was divided among the 93 plus (0.2%), 73 to 92 (6.5%), and under 13 (16.8%) age groups.

Populations are often described in terms of the ratio of the number of people in one age group to the number in another. The most common ratios are the elderly and youth "dependency" or beneficiary ratios: the number of people 65 and older (elderly), and under 15 (youth), divided by the number of people of working age (15 to 64). These ratios are meant to generally represent the magnitude of the relationship between the beneficiary population (of pension plans, health care and education) and the contributory population (those of working age who contribute via taxation and plan installments).

In 1999, there were 183 persons 65 and older, and 286 persons under the age of 15, per 1000 people of working age in Canada, for a total beneficiary ratio of 469 persons per 1000 persons of working age. This compares to 1966's elderly beneficiary ratio of 130 per 1000 people of working age, and a youth beneficiary ratio of 555 per 1000, for a total of 685 per 1000 people of working age. Over the past 33 years, the total beneficiary ratio has declined by 32%, the net result of a 48% drop in the youth beneficiary ratio and 41% increase in the elderly beneficiary ratio. The aging of Canada's population over the next four decades is going to bring a dramatic increase to the elderly beneficiary ratio, and almost none to the youth beneficiary ratio.

B. Canada's Population and Biology: Demographic Change Without Migration

The so called natural processes that affect the size and composition of a population are aging (which affects everyone every year, but does not affect the number of people in the population), death (which affects everyone once in their lifetime, but only a small percentage of the population each year, and does affect the number of people in a population) and birth (ditto).

1. Aging. While a population might increase by 1% per year, 99.27% of the people in the population get a year older each year (0.73% die). The effect of aging is to shift the age profile up: in ten years, the population of Canada, with no deaths or births and no immigration or emigration, would be precisely ten years older than it is today. Aging with no deaths – seems a bit of a stretch – but it is the reality for the vast majority of the population: mortality rates are not significant in the under 75 population, particularly in the 33 to 52 age groups where one third of Canada's population is today.

2. Mortality. It has been said that the only thing worst than aging is its alternative, death. Mortality is the ultimate demographic variable, one that affects both the size and the composition of the population. The number of deaths in Canada increased from 159,533 in 1972 to a record of 222,425 deaths in 1999. This increase is the result of the growth, and the aging, of the country's population, slightly offset by a decline in mortality rates over the past quarter century.

As Figure 3 indicates, mortality rates generally increase with increasing age, and rates for males are higher than for females of the same age (hence males have a lower probability of reaching the next age, resulting in females' greater life expectancies). Mortality rates for both males and females have declined significantly over the past seventy-five years, to the extent that male life expectancies have increased by over 16 years and female life expectancies by over 20 years[3]. Note that the big declines in mortality rates occurred between 1921 and 1961, with the rate of decline slowing since then. While it is certain that medical technology will result in a continuing decline of mortality rates, the law of diminishing returns will also continue to apply. This means that future declines will be much more modest, and more difficult to achieve, than the declines that have been achieved in the past. For this projection, the trend of change in mortality rates over the past twenty-five years has been extended into the future: the result is an assumption that age and sex specific mortality rates will stabilize by 2040.

3. Natality. Figure 4 shows both the birth of the post war baby boom generation and the primary force that has shaped the age profile of the country: turn Figure 4 on its side and you have, essentially, Figure 2. The record number of births in Canada was the 479,275 kids born in 1959, with 1999's 340,900 births being as low as the country has experienced since the end of the second world war. The intergenerational challenge is presaged by having an average of 428,000 births per year during the 1947 to 1966 period followed by an average of 370,000 during the subsequent three decades. During the baby boom era, there were 28 births per 1000 population in Canada: the current rate is 11.2 per 1000, well below half that of the baby boom era.

Figure 3: Age Specific Death Rates, Canada, Log Scale (three year average)
(Deaths per 100,000 people of a given age)

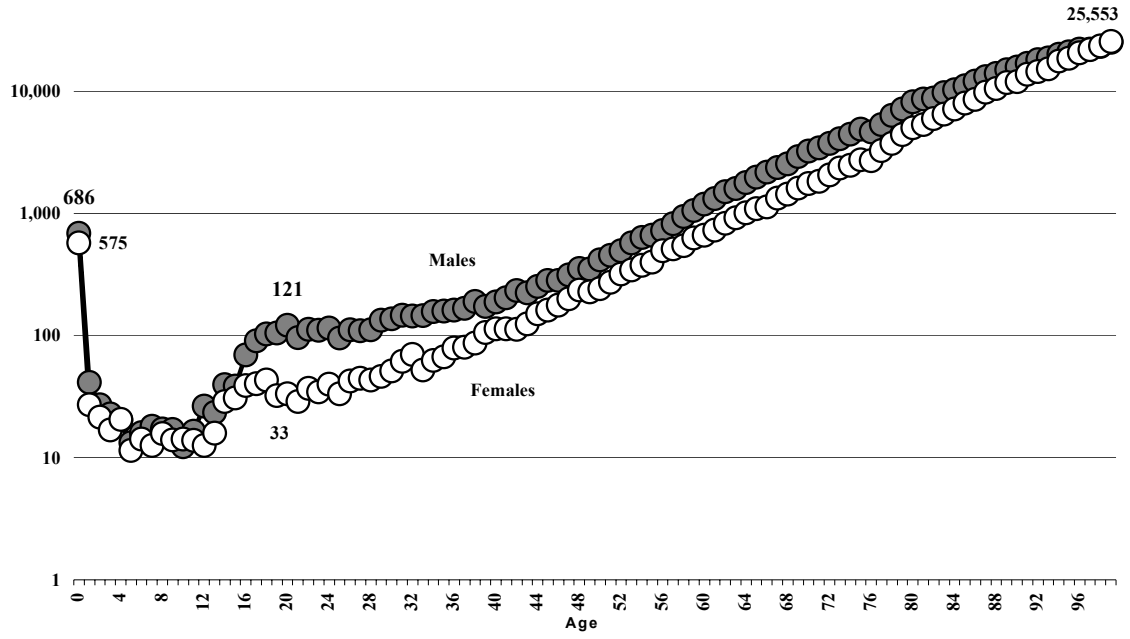
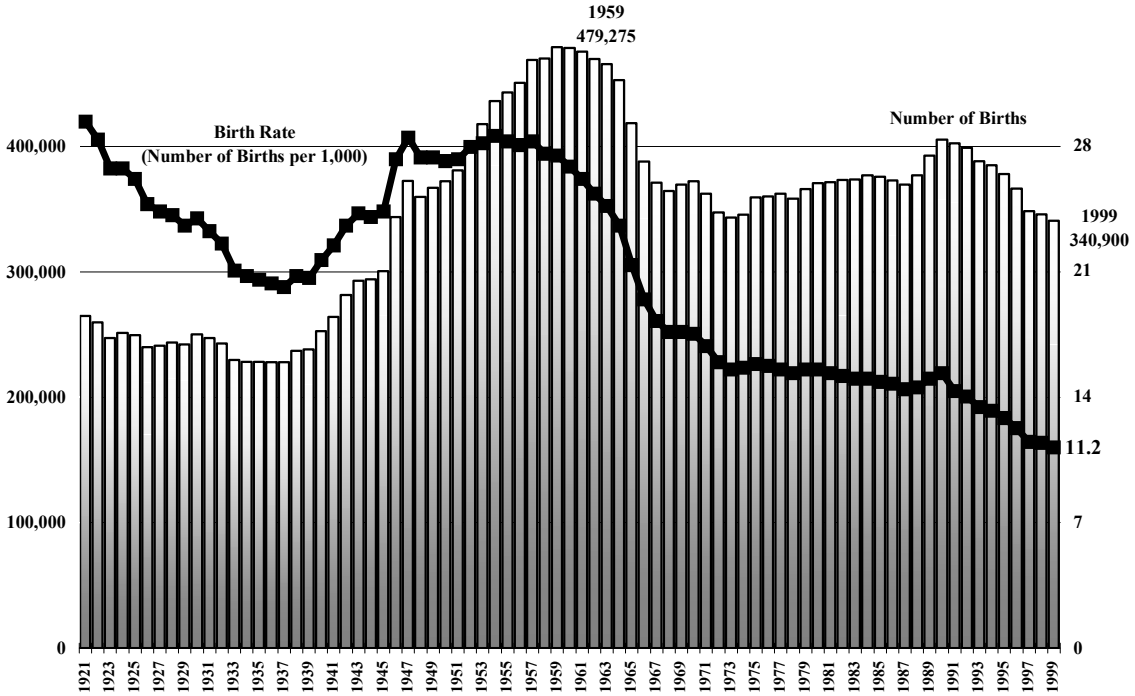
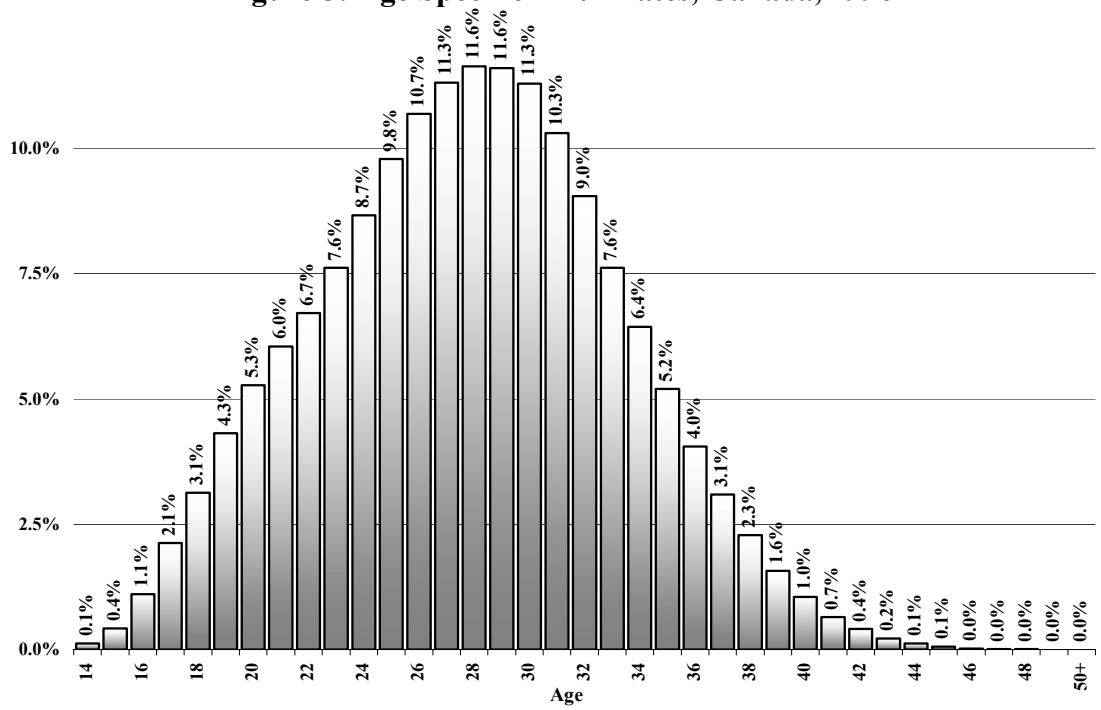


Figure 4: Annual Number of Live Births, Canada, 1921 to 1999



As Figure 5 shows, there is a very distinct pattern to age specific birth rates. The highest age specific birth rates are for women in the 26 to 31 age group, where between 10.3% and 11.6% of the women have a child in a year. The rates increase steeply from 0.1% for women of age 14 to peak at 11.6% at age 28 and 29, then drop sharply back to 0.1% by age 44, becoming negligible by the age of 46. Currently in Canada, women have an average of 1.6 children during their lifetime, well below the replacement level of slightly more than 2 children per woman.

Figure 5: Age Specific Birth Rates, Canada, 1996



Age specific birth rates have changed dramatically over the past seventy-five years, almost doubling for all but the oldest age groups between the pre- and post world war periods, and then dropping to below the pre war levels by the 1970s[4]. Since 1977, there has been a reversal in the pattern of change in the 30 and older age groups, with the continuing declines in the younger age groups being matched by increasing rates in the older age groups. Continuing the trends of the past twenty years will result in a stabilization of age specific birth rates by 2040. These trended birth rates are used in the population projection presented in this report.

4. Natural Increase. Traditionally, consideration of aging, births and deaths without migration has been used to show the change in a population due to "natural processes". This change was referred to as "natural increase", and (unless the movie Men In Black was a documentary) would capture all of the forces that shape the world's population. At any smaller geographic level, migration of people (which, given the nomadic nature of people and today's reproductive and health care technology, is as natural as births and deaths) must also be accounted for.

With the age and sex characteristics of today's population, and the assumption of trended age and sex specific birth and death rates, natural increase alone would result in a slowing of the growth of, and ultimately a decline in, the country's population over the next 20 years (Figure 6). With the bulk of the country's baby boom generation in the 35 to 44 age group, natural increase alone would result in the population growing from its current 30,574,000 persons to a peak of 31,580,000 in 2018. From that year on, the population of the country would decline, reaching 29,504,000 in 2040. With Canada's below replacement level birth rates, in the absence of net international migration, its population will continue to decline every year thereafter.

Figure 6: Canada's Population, 1971 to 2040, Assuming No International Migration

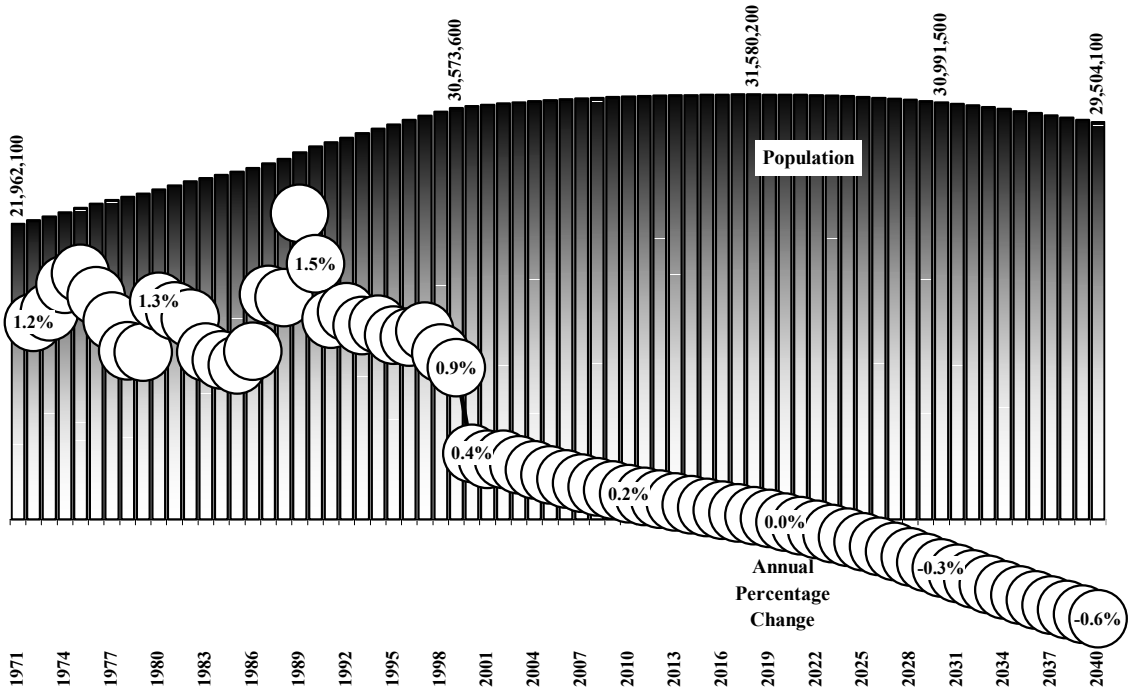
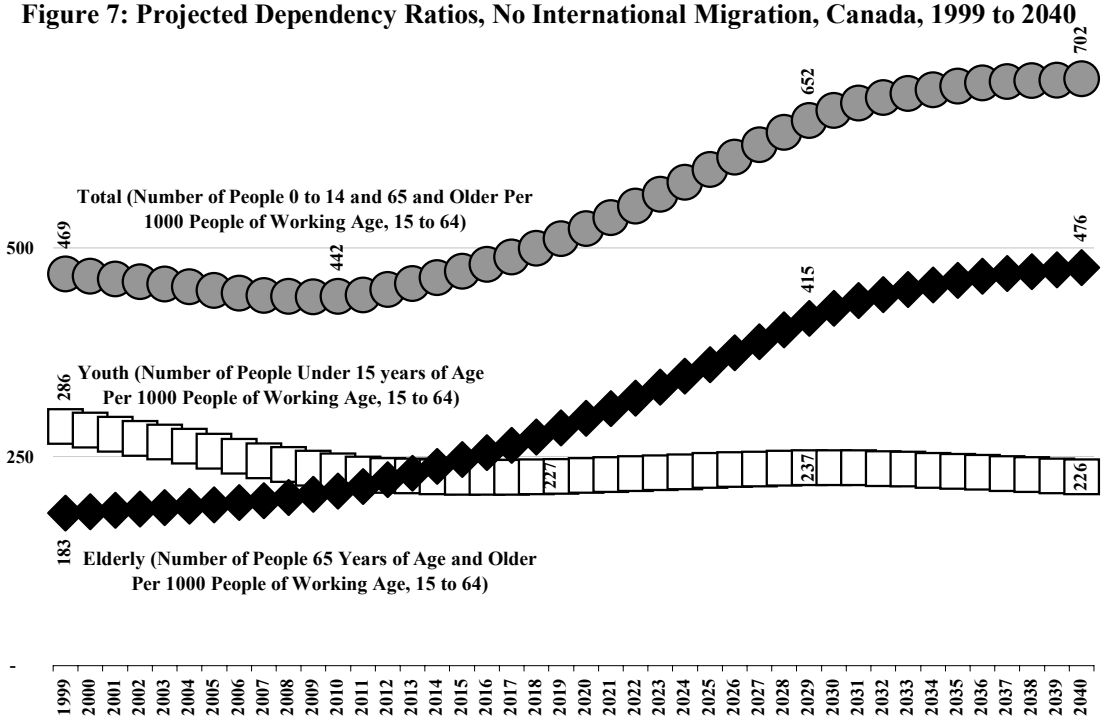


Figure 7: Projected Dependency Ratios, No International Migration, Canada, 1999 to 2040



The reason for the decline in the number of people in Canada would be, effectively, the aging of the country's 1999 population. This is clearly shown in the beneficiary ratio (Figure 7). In 1999, there were 183 people 65 and older, and 288 people under the age of 15, for every 1000 people of working age in Canada. Natural increase alone would result in the number of elderly people increasing to 477 per 1000 of working age (a 161% increase) by 2040, and the number of young people per 1000 people of working age declining to 226 (a 21% decline), by 2040. The total beneficiary ratio would drop from 470 per 1000 in 1999 to 442 in 2009, then climb to 640 per 1000 by 2028, and to 702 per 1000 by 2040.

"Natural" change in the population of Canada would result in the significant aging from 2008, when there would be 201 people 65 years of age and older per 1000 of working age, to 2028, when there would be 402 people 65 and older per 1000 people of working age. This doubling of the beneficiary ratio over two decades would mean an increase of 3.5% per year (in current dollars and with current programs) in the per capita contribution of the working population. Without migration Canada's population would age rapidly (the increasing elderly beneficiary ratio). The number of people in the country would increase very little (and at a declining rate) until 2018, at which point the annual number of deaths would exceed the annual number of births and the country's population would start to decline. This is exactly the situation that Japan is facing today: without immigration and with a below the replacing level birth rate, Japan's population will decline by 20% over the next half century, and its elderly dependency ratio will increase from 190 people 65 and older today to 460 people 65 and older per 1000 people of working age in 2025, and 590 per 1000 in 2050.

C. Canada's Population and International Migration

1. Components of International Migration. Canada's international migration is comprised of people previously residing in other countries moving to take up residency here (immigrants, arriving non-permanent residents, and returning Canadians), and of people leaving to take up residency in other countries (emigration, which affects the number of Canadians who return to the country after having been resident elsewhere, and departing non-permanent residents).

The first, and largest, component is immigration[5], people moving to Canada to become Canadian citizens. Immigration varies from year to year (Figure 8): part of this variance is determined by economics (witness its relatively low level during the 1980s recession and since in the onset of the Asian economic crisis) and part is affected by other factors such as changes in immigration rules. Over the past 25 years, immigration to Canada has ranged from a low of 73,000 (1985) to a high of 228,444 (1993): in 1999, immigration brought 173,011 people to Canada.

As with all migrant groups, the age profile of the immigrant population is younger than that of the resident population (Figure 9)[6]. Over 31% of the immigrants to Canada in 1998 were between the ages of 18 and 31 (compared to less than 20% of the residents). The under 5 age group accounted for approximately 8% of the immigrant population and 6% of residents. 21% of immigrants were in the 5 to 17 age group, whereas 18% of the residents were in this range. The 32 and older population is under represented in the immigrant population (40%) compared to the resident population (57%), with the 60 and older population accounting for a significantly smaller share of the immigrant population (4%) than of the resident population (16%).

The fact that the age profiles of migrant populations are significantly younger than that of the resident population emphasizes the fact that changing regions of residence, whether within a country or between countries, is a challenging and difficult process. As a result, it is most often entered into by young adults, who are generally more adventuresome and are often required to be if they are going to find work and establish careers.[7]

Figure 8: Immigration to Canada, 1867 to 1999

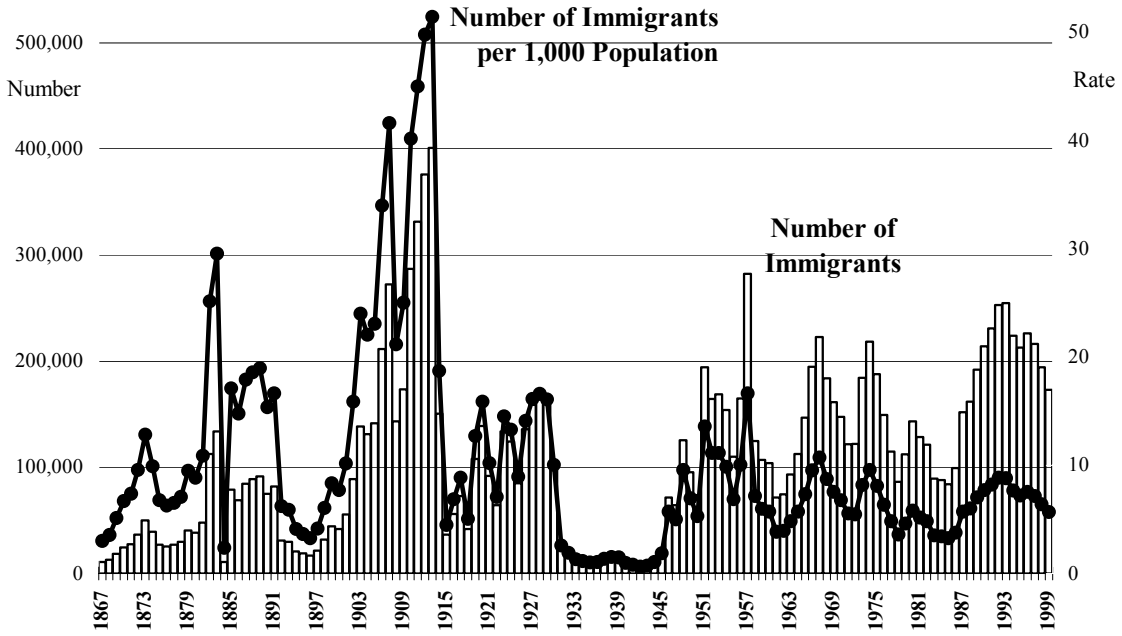
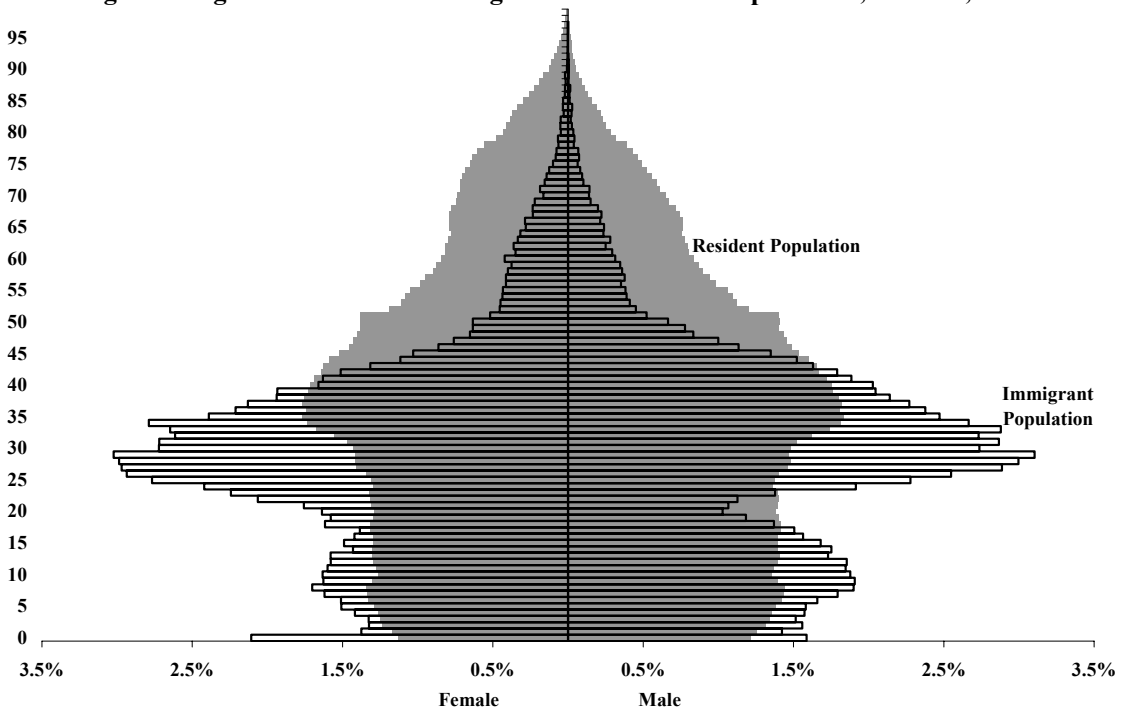


Figure 9: Age Distribution of Immigrant and Resident Populations, Canada, 1998



The counter flow to immigration is **emigration**, people leaving Canada to take up residence in other countries. This second most significant component of international migration has in some years taken away almost three quarters as many people as immigration brought. The emigrant population includes a wide diversity of people, including, as examples, those leaving Canada to be students in foreign universities, to work (the "brain drain") or to play (for the Anaheim Mighty Ducks). It includes people leaving with the intention of returning (and hence who may show up as returning Canadians, unless they decide not to come back) as well as those with the intention of permanently emigrating (who may change their minds and become returning Canadians).

In 1999, 60,448 people emigrated from Canada. Since 1972, each year an average of 58,703 people have left Canada to live in other countries, with the annual number of emigrants varying somewhat, from a high of 90,391 in 1974 to a low of 40,873 in 1990. As a general description, emigration was highest in the 1970s, declining in the 1980s, and stabilizing in the 46,000 to 53,000 range in the 1990s, before climbing sharply in 1999.

The pattern demonstrates that much more than the national economy affects emigration, as regardless of national economic conditions at least 40,000 people have emigrated from Canada every year since 1972. The rate of emigration (the annual number of emigrants expressed as a percentage of Canada's population) has generally dropped since the 1970s. In the mid 1970s, there were 40 emigrants per 10,000 residents, with the rate dropping to 25 emigrants per 10,000 residents in the 1980s. During the 1990s the emigration rate has averaged 0.17% (17 emigrants per 10,000 people resident in the country).

The age composition of the emigrant population, while younger than the resident population, is older than the immigrant population. 28% of the emigrant population is between the ages of 18 and 31, compared to the 20% for the resident, and 31% for the immigrant, population. The younger and older populations are under-represented in the emigration stream: 22% of the emigrants under the age of 18 (24% of the resident and 29% of the immigrant populations), and 50% of the emigrants are 32 and older (40% in the immigrant, and 57% in the resident populations). The percentage share of every age 48 and older in the resident population exceeds that of the emigrant population.

Much of the emigration from Canada is, intentionally or unintentionally, not permanent. The return of Canadians is dependent upon previous emigration: the question is how long is the lag between emigration and return. In many cases, it is as short as a year; for example, students finishing their courses abroad and returning home. In other cases the lag is much longer; for example, Canadian expatriate professors may be away from the country for decades. In the extreme, we may ask if Gretzky will ever come home?

The flow of Canadian citizens returning from places of residence in other countries to reside in Canada over the 1972 to 1999 period added an average of 24,996 people per year to the population. There is not a great deal of variance to this return flow, nor is it particularly correlated with economic conditions. The only general pattern to the return of Canadians has been (as with emigration) a general decline from the 34,600 per year range in the 1970s to the 19,000 range in the 1990s. Since 1990, the number of returning Canadians has averaged 42% of the previous year's emigration.

Young adults (18 to 31) account for a much greater share of the returning Canadian population (39%) than they do of the emigrant (28%) and resident populations (20%). Over the past five years, 41% of the returning Canadian population was over the age of 31, compared to 50% of the emigrant, and 57% of the resident population. The youngest age groups are also under-represented: only 18% of the returning Canadians are under the age of 17, compared to 24% of

residents. Children under the age of 5 account for approximately the same (5%) of the returning Canadian and emigrant populations, slightly less than the 6% of the resident population.

The final, and numerically least significant, component of the international migration flow is the change in the number of people who reside in, but are not permanent residents of, the country. Such residents are primarily foreign students at Universities, colleges and schools; consular and embassy officials; and temporary permit workers such as nannies and domestic assistants. Since 1972, the number of non-permanent residents living in Canada has increased by an average of 4,740 people per year. The age profile of non-permanent residents was decidedly young adults: 50% were in the 18 to 31 age group, compared to 20% of the resident population. Only 18% were under the age of 18, compared to 24% of the resident population, and only 32% were over the age of 31, compared to 57% of the resident population.

In summary, the relative importance of the sources of population growth have changed over the past quarter century. In 1999, the major source (54%) of growth was net international migration: of a total population increase of 273,300 people, net international migration added 147,900 people (173,000 immigrants plus 23,600 returning Canadians, plus 11,700 non-permanent residents minus 60,400 emigrants). Natural increase added a further 118,500 people (340,400 births minus 222,400 deaths).

This contrasts to the average pattern over the past 25 years, when the population increased by an average of 308,827 people per year. The major source of growth, accounting for 51% of the total, was natural increase, which added an average of 188,086 people per year. Net international migration, which contributed an average of 149,708 persons per year, accounted for 49% of the growth. With an aging population leading to a reduction in the annual number of births and an increase in the number of deaths, the relative role of natural increase in population growth will continue to decline.

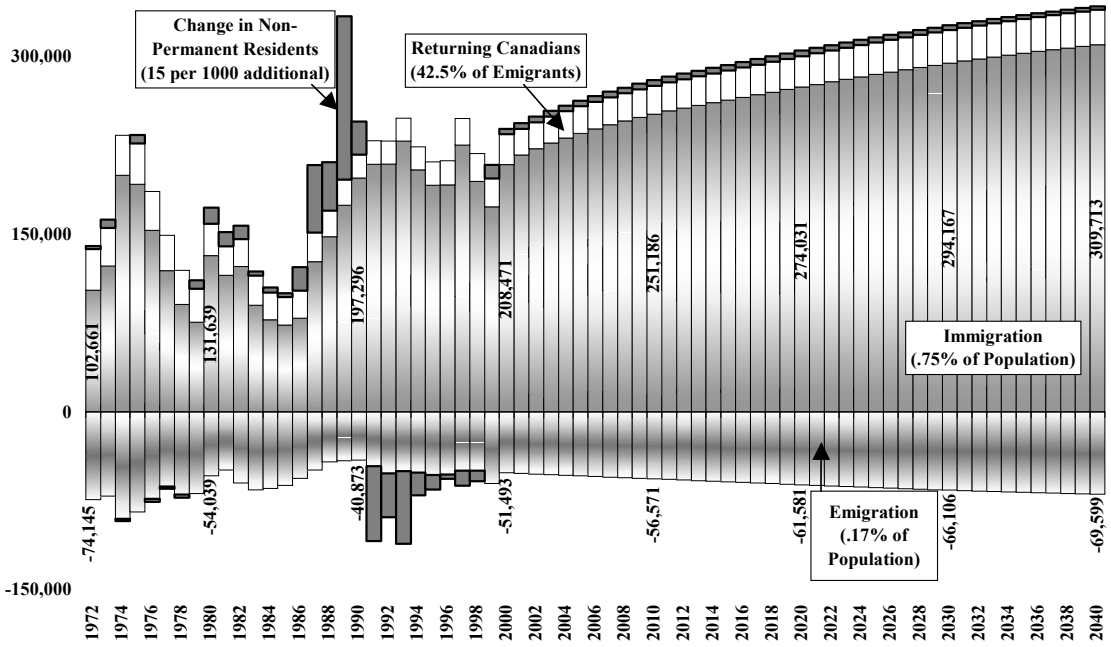
2. Future Long Run Levels of Migratory Flows (Figure 10).

Over the past decade immigration to Canada has ranged between 0.57% and 0.80% of the resident population, with 1997's level at 0.75%, 1998's at 0.64% and 1999's at 0.57%. For purposes of projection, it is assumed that future immigration to Canada will average 0.75% of the country's population. This is based on the level that prevailed this decade prior to the economic reversal in South East Asia and on the assumption that there will be increasing acknowledgement of the importance of immigration in reducing beneficiary ratios[8]. The result of this assumption is a projection of immigration increasing from 1999's 173,000 persons to reach 225,000 by 2003, the 275,000 level by 2021, and surpassing the 310,000 mark by 2040. This will represent an increase from 1999's 0.57% immigration rate to the long run 0.75% rate by 2011.

Emigration, in turn, has averaged 0.17% of Canada's population over the last decade, and the number of returning Canadians (who must have been emigrants at some point in the past), has averaged 42.5% of the number of emigrants in the previous year. Assuming that these ratios continue to prevail, emigration from Canada will increase from 1999's 60,400 to 69,700 by 2040, and the number of returning Canadians from 1999's 23,640 to 29,502 by 2040. Finally, over the past quarter century for every 1,000 additional people in Canada, there were 15 additional non-permanent residents. Assuming that this relationship continues, the number of non-permanent residents in the country will increase by an average of 4,750 per year until 2020, and then slow, as Canada's population growth slows, to about 2,500 per year by 2040.

In all cases, the age and gender profile of the migratory group is assumed to match that which prevailed over the past decade, with the composition being generally that described in the previous section.

Figure 10: Components of International Migration, 1972 to 2040



3. The Projection: Forty-One Million People by 2040

The result of the aging of the country's current population, combined with the continuation of the demographic trends (both biological and migratory) discussed in the preceding sections, will be continuous but slowing population growth over the next forty years (Figure 11). Canada's population in 1999 was 30,574,000 people: by 2014 it will have passed the 35 million mark, and by 2033 it will have passed the 40 million mark. The country's projected population for 2010 is 33,888,300, for 2020 is 36,881,900, for 2030 is 39,485,200 people, and for 2040 is 41,502,800 people. The addition of 10,928,800 people (a 36% increase) to the country's population over the 41 year period from 1999 to 2040 (an average of 266,600 people per year), is significantly below than the 14,219,300 people added (a 110% increase) to the population in the 42 years from 1956 to 1998 (an average of 340,618 people per year).

The relatively young age profile of the net international migrant population will result in beneficiary ratios being much lower than those that would occur with natural increase alone (compare Figure 12 to Figure 7). The trend projection will result in a youth beneficiary ratio of 239 people under the age of 15 for every 1000 people of working age in Canada in 2040, not significantly different from the 226 per 1000 that would occur without international migration. In contrast, the elderly beneficiary ratio with natural increase alone of 477 people 65 and older per 1000 people of working age in 2040 is 29% higher than the 370 persons 65 and older per 1000 person of working age in 2040 that will result from the trend projection. Over the 2008 to 2028 period, the elderly beneficiary ratio will increase from 192 person aged 65 plus per 1000 people of working age to 332 people 65 plus per 1000 of working age. This represents a 2.8% per year increase in real contributory requirements.

The direct and indirect impact of international migration on the age structure of Canada's population is to significantly reduce the relative number of people supported, to one extent or another, by the working population: net immigration makes the population larger and younger.

Figure 11: Canada's Population, 1971 to 1999, Projected to 2040

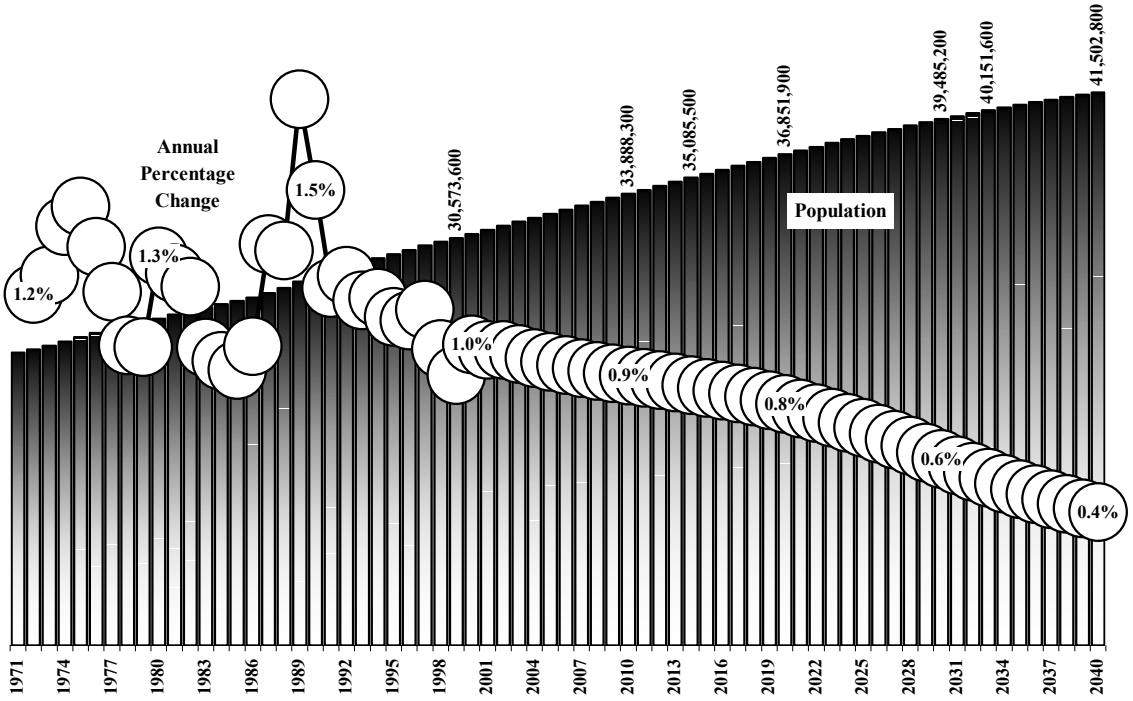
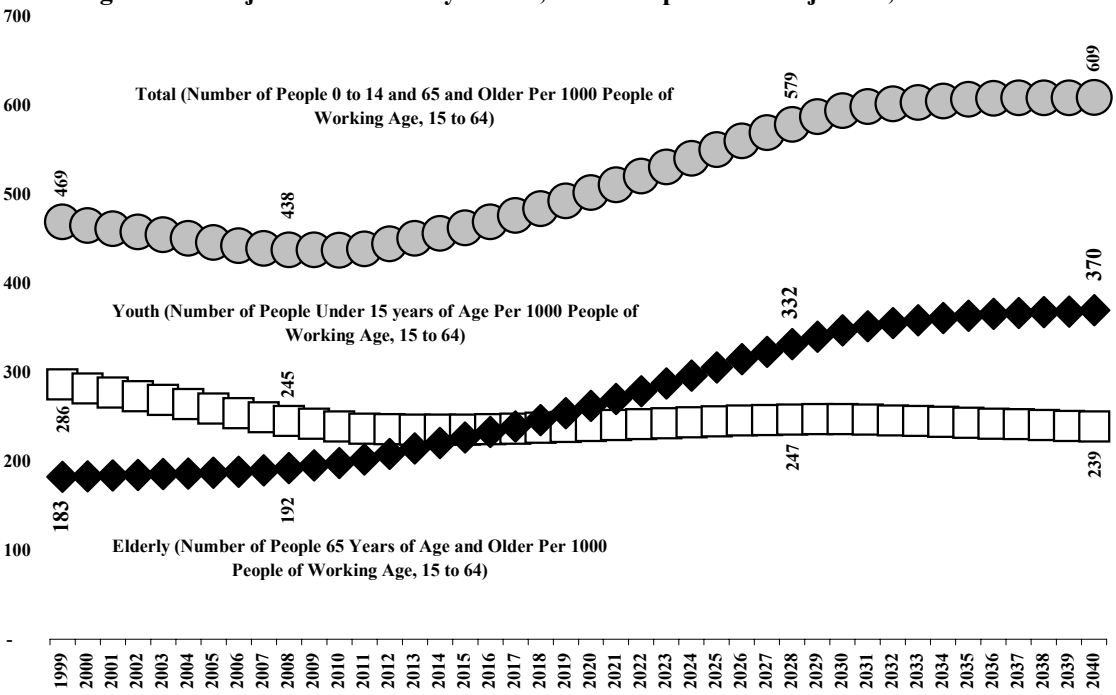
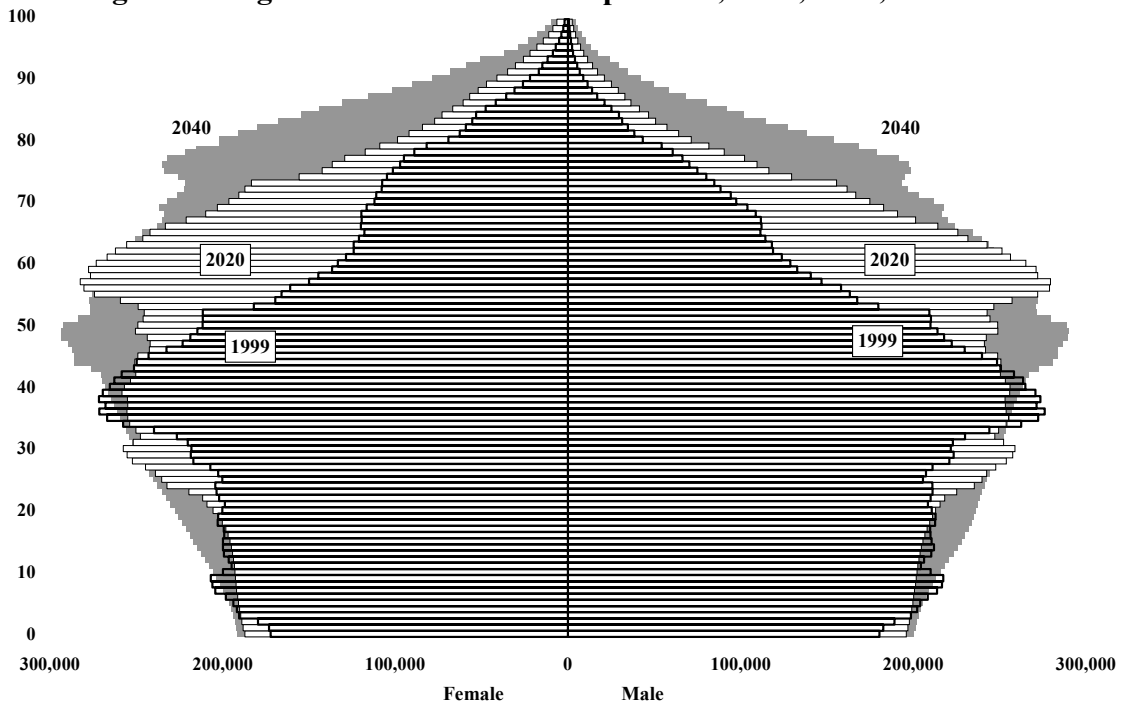


Figure 12: Projected Beneficiary Ratios, Trend Population Projection, 1999 to 2040



While international migration will reduce the aging of the Canada's population, it will not stop it. Aging will ensure that today's baby boom bulge of 33 to 52 year olds will be replicated in the 54 to 73 population in 2020, albeit at a slightly reduced scale due to mortality (Figure 13). The typical person of 1999 (a 36 year old) will be the typical person in 2020 (a 57 year-old). By 2040, the baby boomers will be between 74 and 93 years of age, and will have essentially reached the top, and the end, of the population tree.

Figure 13: Age Profile of Canada's Population, 1999, 2020, and 2040



The shifting up of the baby boom bulge into older age groups where there are currently relatively few people will mean that while the number of people in all age groups will increase, the 45 and older age groups will experience above average increases over the 1999 to 2040 period (Figure 14). The biggest absolute increases, of between 2.3 and 2.5 million more people, will be in the 55 to 64, 65 to 74, and 75 to 84 age groups.

This will double the number of 55 to 64 and 65 to 74 year-olds (90% and 108% increases respectively) in Canada. Aging will increase the number of 75 to 84 year-olds by 184%, with there being almost 3 people in this age group in 2040 for every one there is today. The largest percentage increase, however, will be the fourfold (275% or 1,101,880 person) increase of the 85 and older age group - the result of the aging of the front edge of the baby boom into this age group. The number of people in the under 45 age groups will increase, as the result of net immigration and births, by between the 35 to 44 age group's 37,440 (1%) increase, and the 526,134 person (12%) increase of the 25 to 34 age group.

The relative growth in age groups is shown on a comparative basis by using growth indices, where the number of people in an age group in any future year is divided by the number of people in the age group in 1999 (Figure 15)[9]. The growth of the country's population from 30.6 million to 41.5 million between 1999 and 2040 is a 36% increase: there will be 1.36 people in Canada in 2040 for every one there was in 1999.

Figure 14: Projected Increase in Canada's Population by Age Group, 1999 to 2040

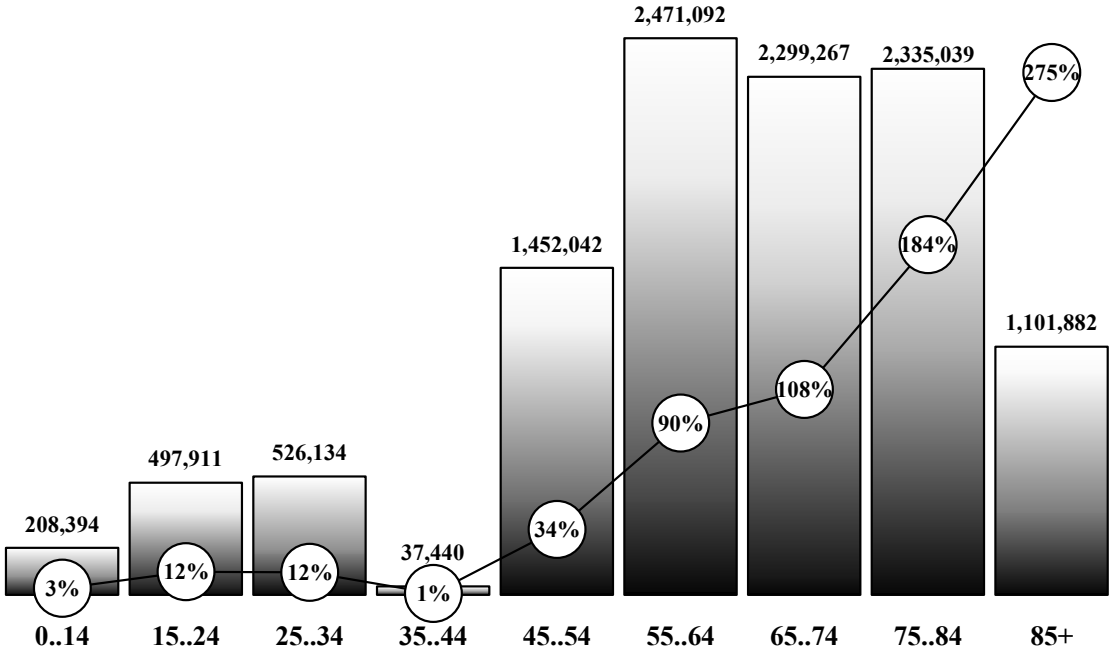
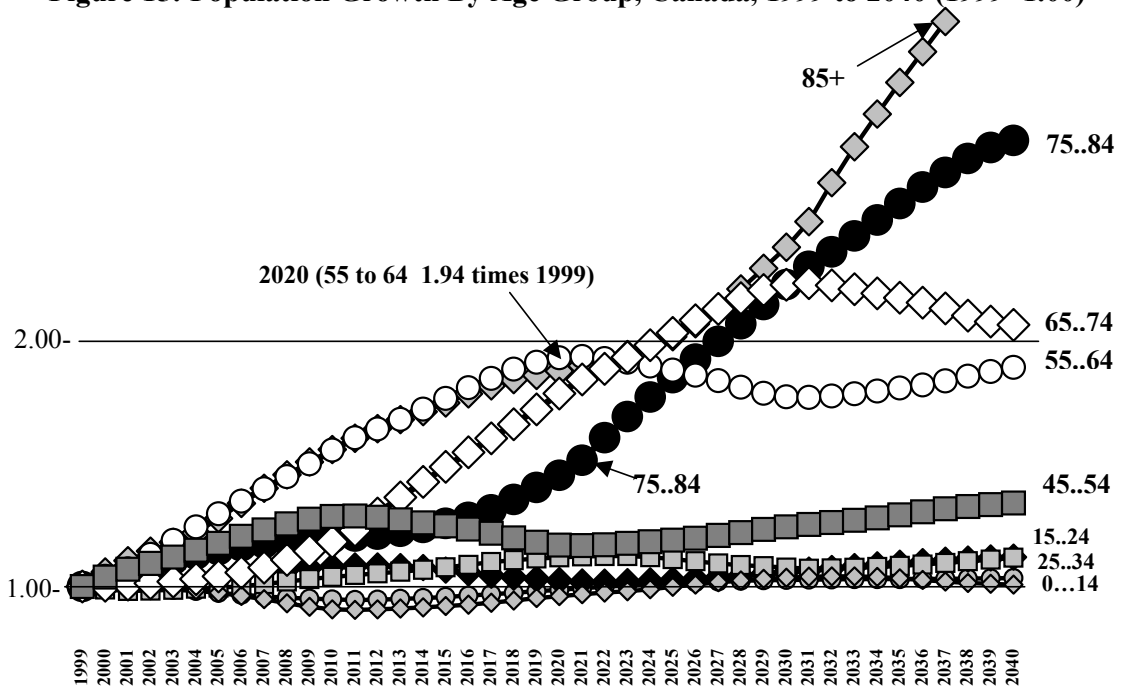


Figure 15: Population Growth By Age Group, Canada, 1999 to 2040 (1999=1.00)



As today's 33 to 42 year olds (the big bulge of the baby boom) age into the 45 to 54 age group it will continue to increase in size until 2010: after that the number of the people in this age group will decline, as the number of boomers aging out of it will be larger than the combination of the number of post boomers aging into it and net immigration immigrants in this age group.

From 2003 to 2011 the 55 to 64 and 85 plus age groups will experience the most rapid increases, and from 1999 to 2024 the greatest increases, of all age groups, the impact of the aging of the post World War I and World War II baby booms. The number of people in the 55 to 64 age group will continue to increase significantly until 2020, when it will have almost twice as many (94% more) people than it had in 1999. This is the result of the first of the baby boomers aging into the age group by 2002, and all of them reaching this age by 2024. After 2024, most of the boomers will have had their 65th birthday, and aged out of the 55 to 64 age group.

The aging of the baby boom will bring the first of the baby boomers to the 65 to 74 age group by 2012: the impact will be demonstrated by a significant increase in the growth rate of this age group from 2011 to 2030. However, the growth in the number of people aged 65 to 74 will start to accelerate earlier, in 2005. The reason for this "early start" is the fact that the births of the war babies started the baby boom, but not the post war part of it, in 1940. The number of births in Canada remained relatively constant in the 240,000 to 265,000 births per year range in the 1920s, and 237,000 to 250,000 per year in the 1930s. In 1940, there were 252,000 births in Canada, the largest number since 1923. In 1941, there were 263,000 births, and in 1942, there were 282,000, the record number for Canada to that date. In 1943, 1944, and 1945, records were established each year, with 1945's 300,000 births being 25% greater than the 238,000 births of 1939.

The 65 to 74 age group will have the third largest increase (after the 85 plus and the 75 to 84 age groups) over the 1999 to 2040 period, with there being 2.08 people aged 65 to 74 in 2040 for every one that there was in 1999. The age group will grow strongly throughout the 2010 to 2030 period, as the last of the boomers (those born in 1966) will not have their 65th birthday until 2031: after this date the size of the age group will decline as a result of the aging of the boomers into the 75 to 84 age group. This will be the most rapidly growing age group from 2011 to 2021.

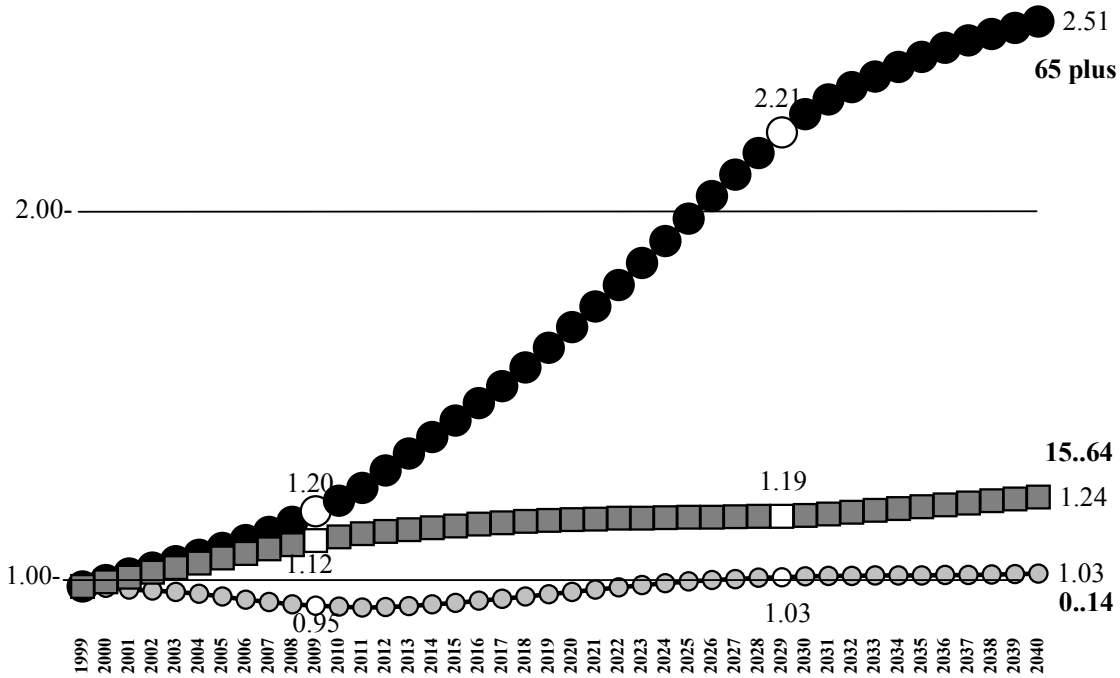
In its turn, the 75 to 84 age group will experience its most rapid growth from 2016 on, with the first of the boomers reaching it by 2021, and hence speeding its rate of increase, to reach 2.84 times its size (a 84% increase) by 2040. The number of people in this age group will continue to increase significantly until at least 2045: it will be the most rapidly growing age group in the country from 2021 until 2026.

And, as would be expected, the 85 plus age group experiences an acceleration in its growth in 2026, not as a result of the baby boomers reaching this age, but as a result of the war babies reaching age 85: the most rapid growth in the 85 plus population will start in 2030, when the first of today's 53 year olds will have their 85th birthday. Note, however, that the population 85 and older grows both significantly and continuously throughout the projection period, surpassing the (percentage) growth of all but the 55 to 64 age group to 2019, and all but the 55 to 64 and 65 to 74 age group to 2026. This is the result of three factors. The first is the long life expectancy of today's population, which means that a large proportion of today's population can anticipate having an 85th birthday. The second factor is that there were many more births in the 1912 to 1939 period than there were in the preceding decades, so there are more people in every corresponding under 85 age group today than there were in the past: there are more people to benefit of long life expectancies. The third factor is that there are very few people in this age group today, so that even small increases in numbers means large percentage increases.

The differential in growth rates by age groups will bring about a dramatic change in the composition of Canada's population. The 65 and older population will double its share of the country's population, from 12.4% in 1999 to 23.0% in 2040, while the percent of working age will decline by 5.9%, from 68.1% of the population aged 15 to 64 in 1999 to 62.2% in 2040. The rest of the increase in the share of the older population will come from the decline in the younger population's share, from 19.5% in 1999 to 14.9% in 2040.

The demographic situation facing Canada is summarized on Figure 16. Over the next few years, there will be some general correspondence between the growth rate of the beneficiary and contributory populations: between now and 2008, the working aged population will increase by 12%, the 65 plus population by 20%, and the under 15 population will decline by 5%. Over the two following decades, while the size of the working and under 15 populations will remain relatively constant, the population 65 years of age and older will almost double.

Figure 16: Population Growth By Age Group, Canada, 1999 to 2040 (1999=1.00)



For every person aged 65 plus in Canada today, there will be 2.21 persons of this age in 2028, and 2.51 in 2040. This 151% increase in the elderly beneficiary population will not be matched, or even approached, by the increase in the contributory population, which will increase by only 19% between now and 2028, and by 24% by 2040. The 151% increase in the 65 plus population over the next four decades will be more than 6 times the 24% increase in the working aged population.

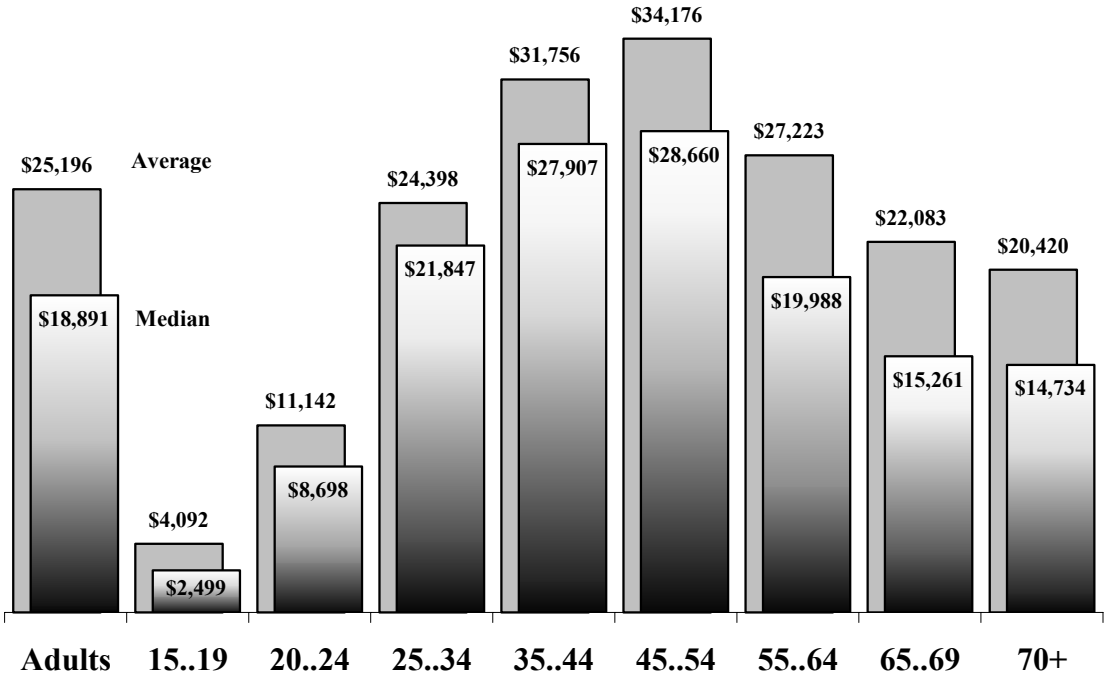
Canada has about 8 years to put in place the programs that will fund the rapid real growth in intergenerational transfers that will be required as a result of the 65 plus population increasing from 1 in 8 people in the country today to 1 in 4 within the next 30 to 40 years. From 2008 on, the number of people 65 and older in the country will increase by 84%, compared to a 6% increase in the 15 to 64 age group.

Ready or not, an aging population will dramatically affect social services in Canada: the ability of these services to survive will depend upon how ready we are. The current reliance on taxation and pay as you go programs to fund such social services means that the load on the contributory population will be largely determined by the projected doubling of the ratio of the beneficiary to contributory populations. As the next section shows, income support and health care in Canada will be particularly challenged by demographic change and current funding practices.

III. Examples of Intergenerational Transfers in Canada

The incomes of the 65 plus population are well below the averages, and are effectively the lowest of all income groups. Data from the 1996 Census of Canada show that the average gross income of an individual in Canada in 1995 was $25,196, while that for a person 65 to 69 was $22,083, and for those 70 plus were $20,420 (Figure 17)[10]. The corresponding median incomes were, for all adults, $18,891, for 65 to 69 year olds, $15,261 and for persons 70 plus, $14,734. The only age groups that had lower averages and medians were the 15 to 19 and 20 to 24 age groups: many of these young people live at home, without income but supported by parents, which pulls their median and averages down.

Figure 17: 1995 Individual Income by Age Group, Canada



In a discussion of beneficiary ratios, the relatively low incomes of seniors must be put in the context of the source of these incomes: the single largest source of incomes for the 65 plus population in Canada is transfers (including CPP) from governments (Figure 18)[11]. 1996 Census data show that while 13.9% of the income of all Canadians comes from government transfers, 43.5% of the income of the 65 to 74 year old population, and 48.6% of the income of people aged 75 plus, comes from government transfers, including CPP, Old Age Security, Guaranteed Income Supplement, Spouse's Allowance, Widowed Spouse's Allowance, and various provincial senior's income supplements. Given this reliance on government transfers as an income source for seniors, the doubling of the elderly beneficiary ratio will particularly tax government's ability to, well, to tax.

A brief comment about the rationale for including CPP in the government transfers category. In part this is the result of it being grouped this way in the Census data. But further, given that it is a compulsory program that is administered and regulated by governments, in terms of both benefits and contributions, it has all the characteristics of a tax. It may be argued that the recent CPP reforms have put it on a sustainable basis (it may also be argued that it has not, as it has been running at a deficit since 1991). However, it is important to note that not all Canadians are eligible for CPP. Only 13.5 million people contributed to the CPP in 1997[12], two thirds of the total population aged 15 to 64, leaving 6.8 persons aged 15 to 64 who did not contribute.

Figure 18: Sources of Income of Senior Individuals By Age Group, Canada, 1995

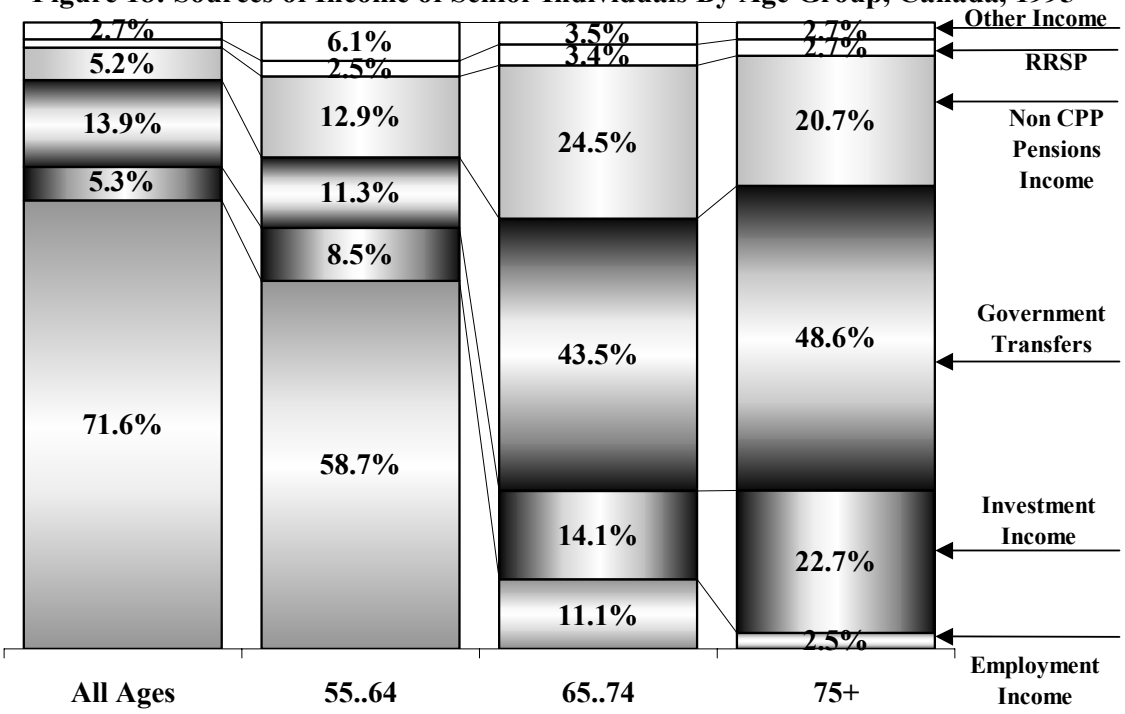
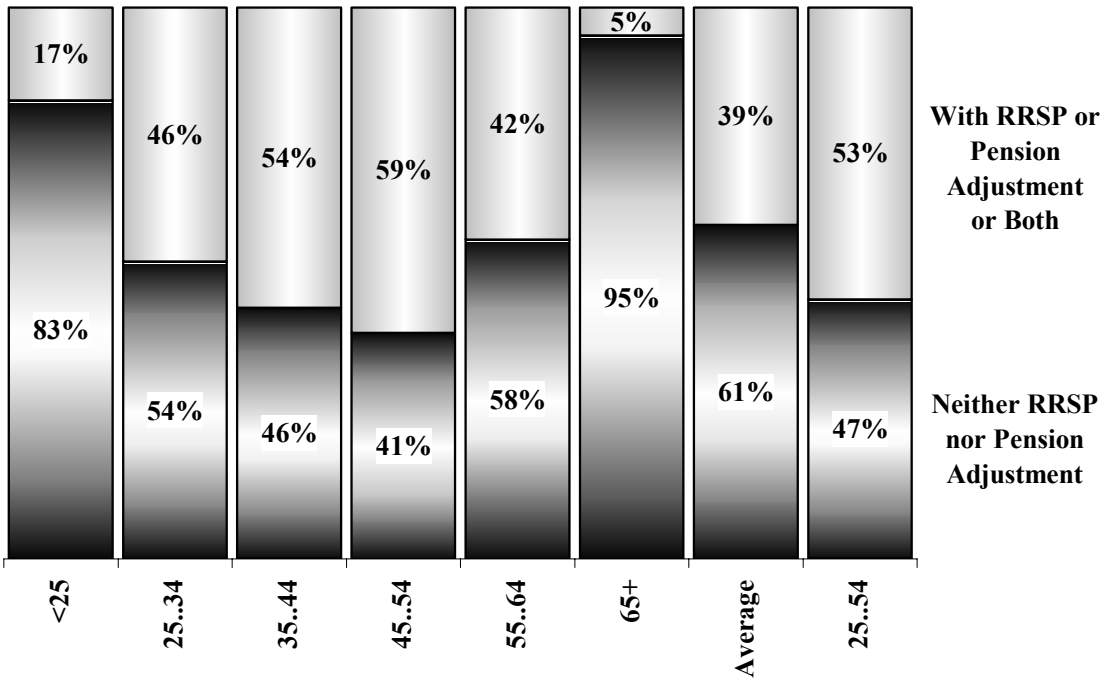


Figure 19. Percent of Taxfilers with RRSP or Pension Contribution, Canada, 1997



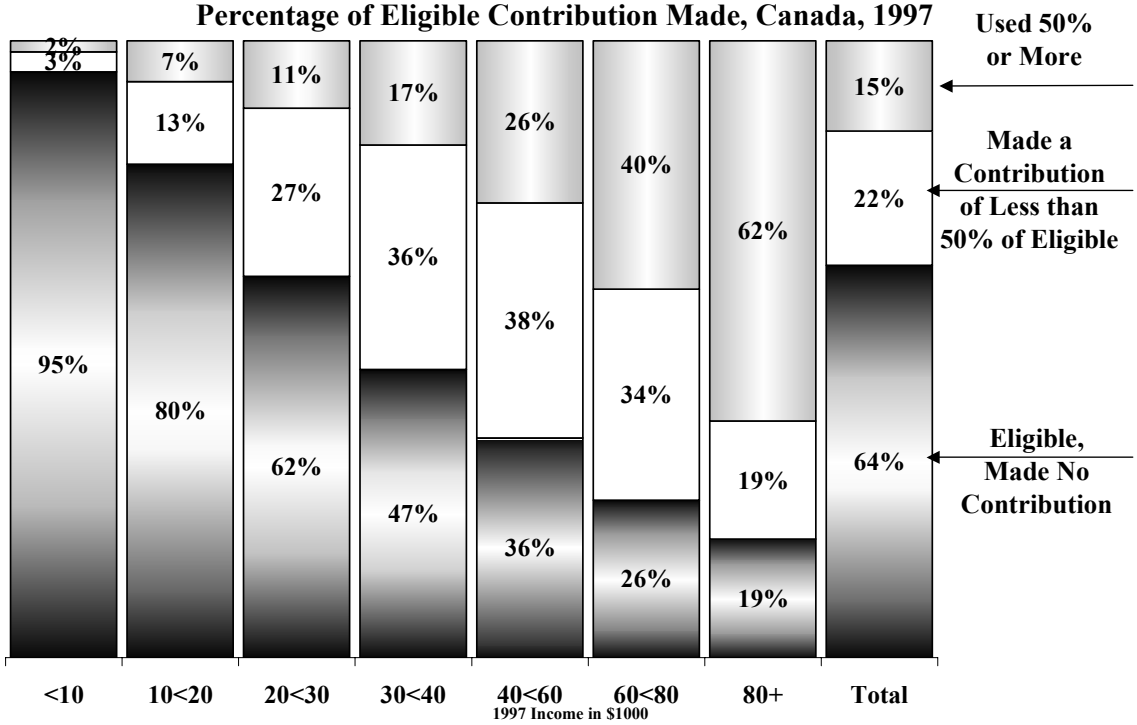
In spite of CPP reforms, there remains concern about the ability of government transfers to adequately fund the incomes of seniors and survive doing so: for example a recent report[13] by the Association of Canadian Pension Management was released under the headline "a demographic time bomb threatens Canada's public and private retirement plans". Major changes must come soon to defuse it." One of the suggestions the report makes is a greater reliance on RRSPs.

An examination of the data on private pension plans shows that, if individual funding is to help to diffuse the situation, there will have to be dramatic changes in contribution rates. The majority of the Canadian population appears to be counting on the CPP and/or governments' transfer payments (or winning the lottery) for their retirement income. Only 5.1 million (25%) of the 20.3 million people aged 15 to 64 in Canada in 1997 made contributions to a private pension, and only 6.2 million (31%) made a contribution to an RRSP[14].

Sixty-one percent of the people who filed income taxes in Canada in 1997 did not contribute to either a RRSP or to a private pension (indicated by a pension adjustment on their tax form): removing the under 25 and 55 and older taxpayers from the data still shows that almost half (47%) of the tax filers aged 25 to 54 contributed to neither a RRSP nor a private pension in 1997 (Figure 19)[15].

The fact that slightly more than half of the 25 to 54 year older tax files contributed to either a RRSP or a private pension should not be regarded too optimistically: those who did contribute made less than half of the contribution they could have (Figure 20). Of the taxpayers in Canada who were eligible to make an RRSP contribution in 1997, 64% did not do so. Another 22% did make a contribution, but this contribution was less than half of the maximum of the new room (based solely on the previous year's income, ignoring any carry forward of contribution room from previous years) that they could have made. Only one in seven used 50% or more of their contribution room, with 1 in 40 using between 50% and 74%, 1 in 50 using between 75% and 94%, and 1 in 10 using 95% or more. The higher the individual income, the greater the percentage of RRSP room is used.

Figure 20: Persons Eligible to Make RRSP Contribution by Income Group and Percentage of Eligible Contribution Made, Canada, 1997



For the majority of Canadian taxpayers, increased retirement savings will not come from increasing RRSP maximum contributions, as they are not reaching their current limits. Increasing individual funding of retirement through the RRSPs is going to require increasing contributions, which means encouraging Canadians to take advantage of the program, and helping them to find the funds to make contributions with.

For all the attention it has received, one would think that ensuring retirement income was the single greatest challenge that aging will bring to social services. Yet a much larger challenge will come from trying to fund the universal unfunded pay as you go health care system. Health care expenditures are also strongly correlated with age, with 58% of total lifetime, and 68% of total provincial, health care expenditures occurring after a person's 65th birthday (Figure 21)[16].

Figure 21: Average Lifetime Expenditures on Health, Canada, 1994

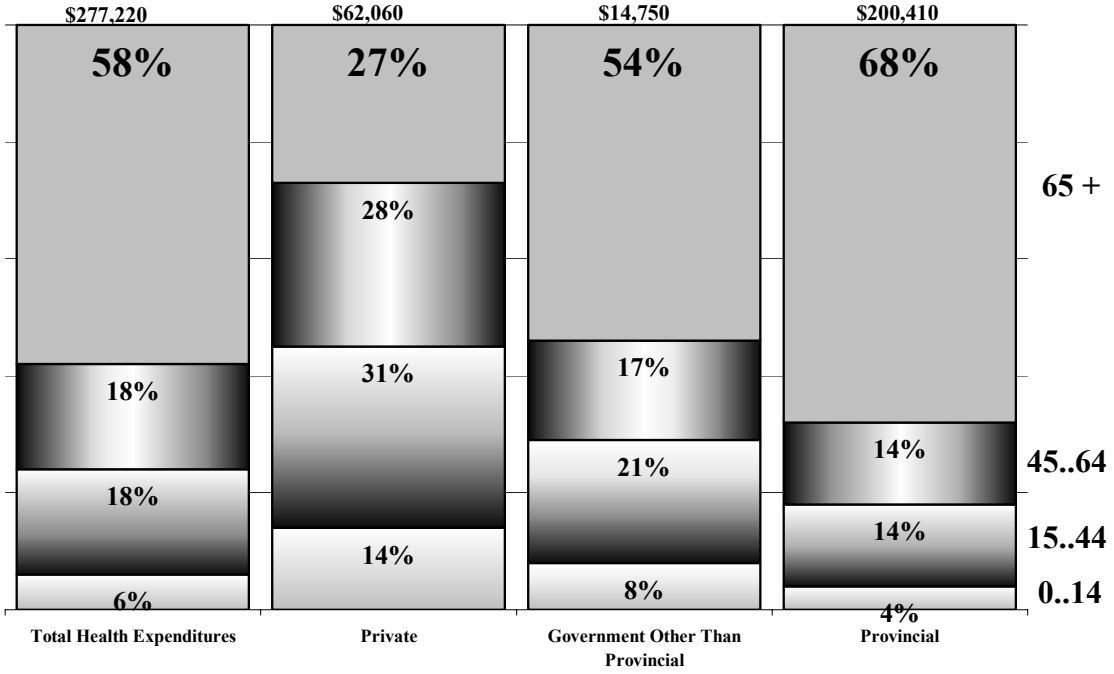
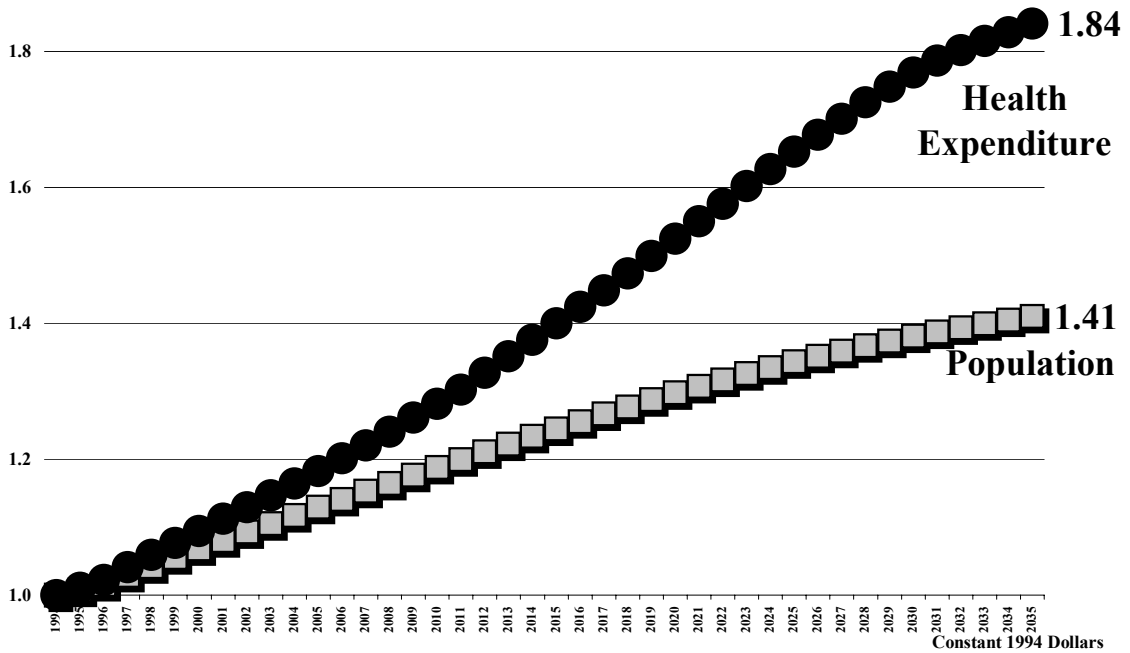


Figure 22: Population and Health Expenditure Growth, Canada, 1994 to 2035



With publicly funding accounting for over three quarters of the total amount spent by and on behalf of a Canadian during their lifetime, rapid growth in health expenditures will bring their greatest challenges to the public health care system. Public sector health expenditures are overwhelmingly concentrated on the 65 plus population, with 68% of the expenditures a provincial government makes on a person during their lifetime occurring after a person's 65th birthday. The corresponding amount for federal direct and municipal health expenditures is 54%. These compare to the 27% spending by individuals for health care (mainly for dentists and eye care).

If age specific per capita health care expenditures remain as they were in 1994 – a reversal of the increasing trend of the past two decades – then, given the aging of the country's population that will occur over the coming decades, we will experience a situation where real health expenditures will increase at twice the rate of the population (Figure 22). For every person in Canada in 1994, there will be 1.41 (a 41% increase) in 2035. For every dollar spent on health care in Canada in 1994, there will be $1.84 (an 84% increase) in 2035. With no inflation, no change in spending patterns, and no increase in consumption of health services, the per capita expenditure of health care in Canada will increase by 31% between 1994 and 2035. Public health care in Canada is entirely a pay as you go system, with no accumulated assets or alternatives.

With aging generating rapid growth in real expenditure for both income supplements and health care, it will be important that government policies encourage people fund as much of their own retirement as they can. Using the housing market can help it to do so, and to achieve better land use and growth management policies at the same time. To identify the potential that the housing market offers, it is necessary to consider both demand and occupancy of housing in Canada.

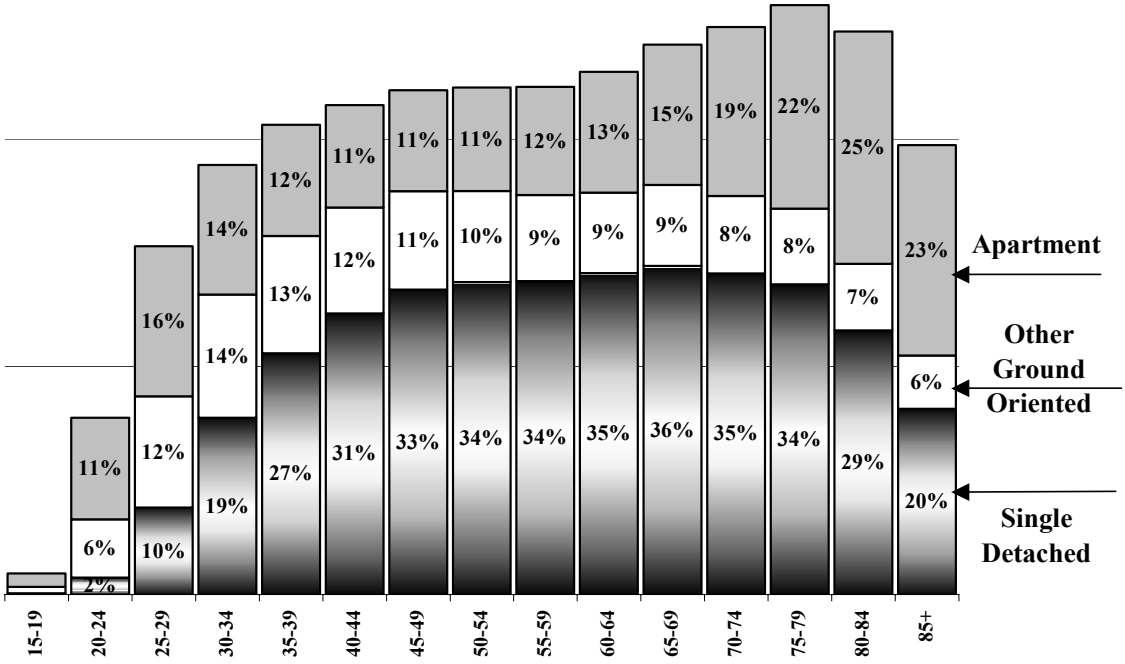
IV. Housing Occupancy, Housing Demand, and Demographic Change in Canada.

One way that Canadians can get the extra money to build up their RRSPs is to ensure that they match their housing requirements and housing consumption by moving within the housing stock. In order for this turnover to occur in a way that households will have more money to put in their RRSPs, there must be increasing demand for housing. Some commentators have suggested that this will not be the case, that housing markets will "meltdown" over the coming decades. For example, the authors of Boom Bust and Echo write that "the baby bust generation that followed (the baby boom generation) is 45% smaller than the baby boom cohort"[17], and that "the busters will see to it that supply of housing exceeds demand through the first decade of the next century"[18]. Garth Turner argues that "We have bad demographics for real estate now, and there will be an oversupply of traditional multi-bedroom homes in a few years."[19]

If these opinions were valid, there would be no point in considering housing equity as a source of funds for RRSPs, as housing prices would be falling while the contribution load for health care and government income transfers would be rising. Fortunately, these opinions are unfounded in either demographics or economics: the aging of Canada's population will occur, but within the context of the typical Canadian today being a 36 year old and having a life expectancy of 80 years, and of the population of Canada increasing by 11 million people over the next four decades. In fact, demographic change will ensure that the demand of housing will increase faster than the population between now and 2040.

A. Projections of Housing Demand. To project housing demand, it is necessary to have a link between housing and the age composition of the population. This is provided by household maintainer rates, the percentage of people in an age group who are responsible for the financial support of a household (a group of people living in a dwelling unit, such as a house or apartment suite). As Figure 23 shows, household maintainer rates are highly correlated with age[20].

Figure 23: Age Specific Household Maintainer Rates by Structure Type, Canada, 1996

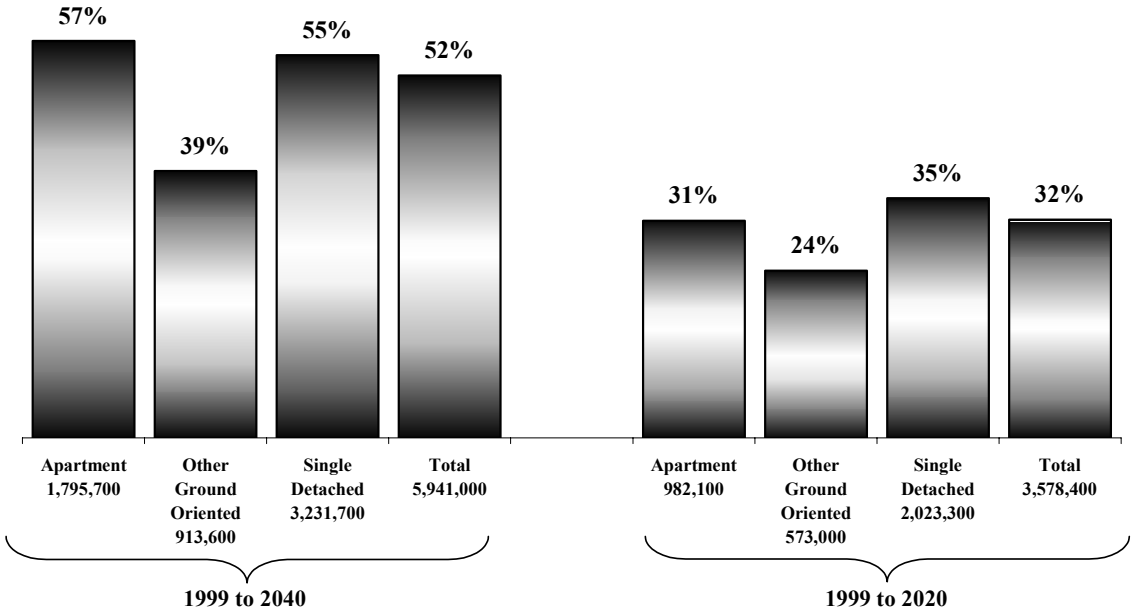


The age groups where there is the greatest likelihood that a person will be a household maintainer are those that will increase by the greatest rate and amount over the coming four decades. Over 50% of the people in the 35 to 84 age group are household maintainers, with a peak of 66% of the people in the 70 to 74 age group being household maintainers. Almost a third of the households in these age groups are maintainers of household living in single detached houses, with the remainder maintaining households living in other forms of ground oriented accommodation (duplexes, suites in houses, triplexes, "quadraplexes", row housing, mobile homes, etc.) and in apartment suites in multi-unit corridor access apartment buildings).

Assuming that these rates remain generally constant over the coming years, given the growth and change of the country's population, the demand for housing, and particularly for single detached housing, will increase faster than the projected 36% increase in population between 1999 and 2040 (Figure 24). There will be occupancy demand for 5,941,000 (52%) more dwellings in Canada over the next four decades. The occupancy demand for single detached units will increase by 55% (3,231,700 more units), for other ground oriented units by 39% (913,600) and for apartments by 57% (1,795,700 more units). Over the next two decades, housing occupancy demand will increase by 32% compared to a projected population increase of 21% (6.4 million more people). Of the 3,578,400 dwelling units required to accommodate our aging and growing population over the next two decades, 2,023,300 (a 35% increase) will be single detached, 573,000 (a 24% increase) will be in other ground oriented units, and 982,100 (as 31% increase) will be suites in apartment buildings.

This means that room for 179,000 more dwelling units, 101,200 of which are single detached units, has to be found each year. Housing construction will occur at an even greater pace, as in addition to building for occupancy demand, units will have to be built to replace obsolete and demolished units (replacement demand) and to ensure an inventory of vacant units to facilitate turnover (vacancy demand). Along with this growth in the demand for housing in Canada's towns and cities will go an increase in the demand for land on which to build the houses, and for the supporting infrastructure that will accompany the development of these new homes.

Figure 24: Projected Increase in Housing Occupancy Demand by Major Structure Type, Canada



In an urban growth management context, the question is where will these new homes be located. If the demand for 35% increase the stock of single detached housing is accommodated by the expansion of urban areas into surrounding rural areas, there will be a proportionate loss of agricultural land, increase in transportation and other infrastructure demands, and longer commuting times. In every growing urban region of the country, there is concern about the economic and environmental consequences of spatial expansion, with growth management programs seeking to reduce the land and infrastructure required to accommodate growth.

The challenge is thus. In order to moderate the rate of growth in demand for benefits – income support and health care – that will result from the aging of Canada's current population, the country will require significant growth in the population contributing to these programs. This means population growth. Without the projected growth in the contributory population, the beneficiary ratio will almost triple: even with it, the beneficiary ratio will double.

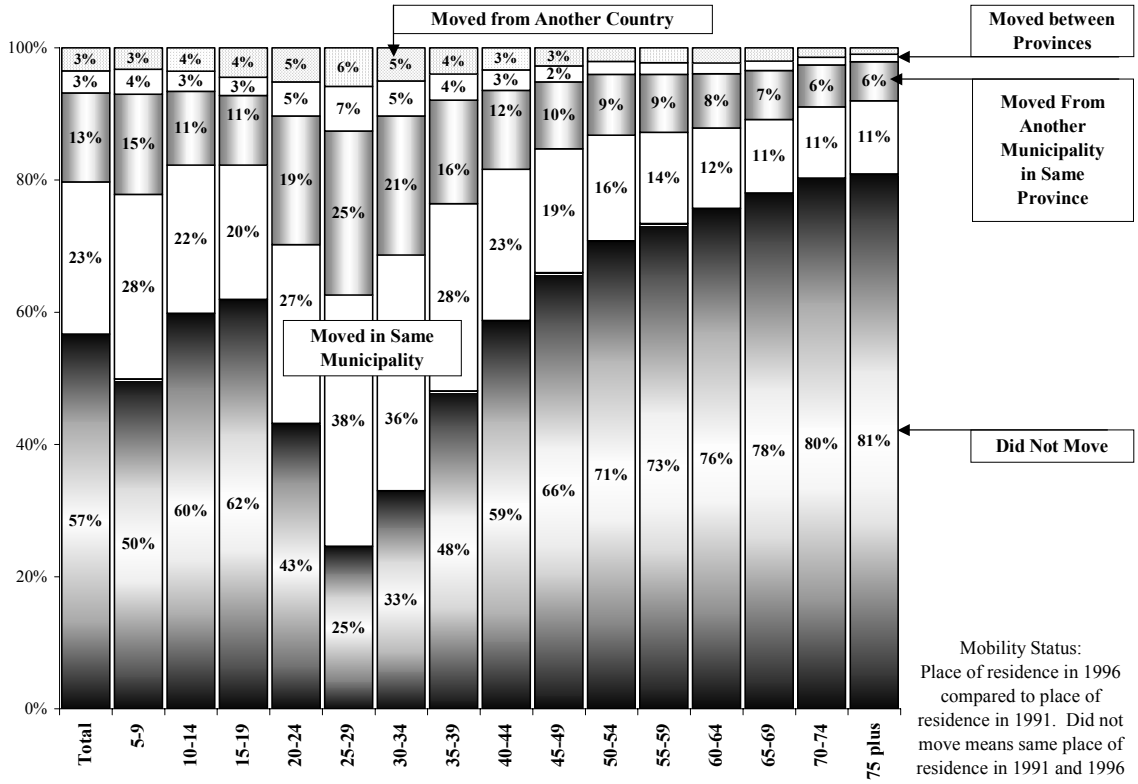
Senior governments will find themselves increasingly between a rock, their debt service payments, and two hard places, the rapidly increasing demand for income support and for health care for their aging populations. Seniors, in their turn, will find themselves less able to rely on government for income support, and some form of rationing of health care services. Local governments, at the same time, will be faced with providing services for the 35% (over the next two decades) and 55% (over the next four) expansion of their stock of single detached housing.

All of this is predicated on the assumption that things continue as they are today. In terms of income support for the needy, and health care for all, this is not only a prudent assumption, but a desirable one. The change should be to reduce the number of people who will need income support. One step towards this is to use the rising demand for housing, and housing market turnover, to bring about a better match between seniors' housing needs and their occupancy patterns. As the next section shows, many seniors occupy houses much larger than they require: providing them with an incentive to downsize and build their RRSPs will reduce the extent of expansion of urban areas and the load on senior government income support programs.

B. Housing Occupancy and Age. The distinct age related pattern to housing occupancy is not limited simply to the structure type pattern discussed in the previous section. How often we move, the type of housing we occupy, the number of people we live with, and how much we spend on housing are all tied, directly or indirectly, to our age (the stage of the life cycle).

1. Mobility. There is a period of time in our lives – during our 20s and early 30s – when we are highly mobile; we change relationships, jobs, and places of residence with great frequency as we explore the options that the world might offer us. As Figure 25 shows, 75% of the people aged 25 to 29 resident in Canada in 1996 lived somewhere different from where they lived in 1991 (when they were 20 to 24): 38% moved within the same municipality, 25% moved between municipalities in the same province, 7% moved between provinces, and 6% moved to Canada from another country[21]. [Not included in this data are emigrants, those who moved from Canada to another country during this period.] Only 25% of 1996's 25 to 29 year olds, and 33% of its 30 to 34 year olds, lived in the same dwelling in 1996 as they did in 1991.

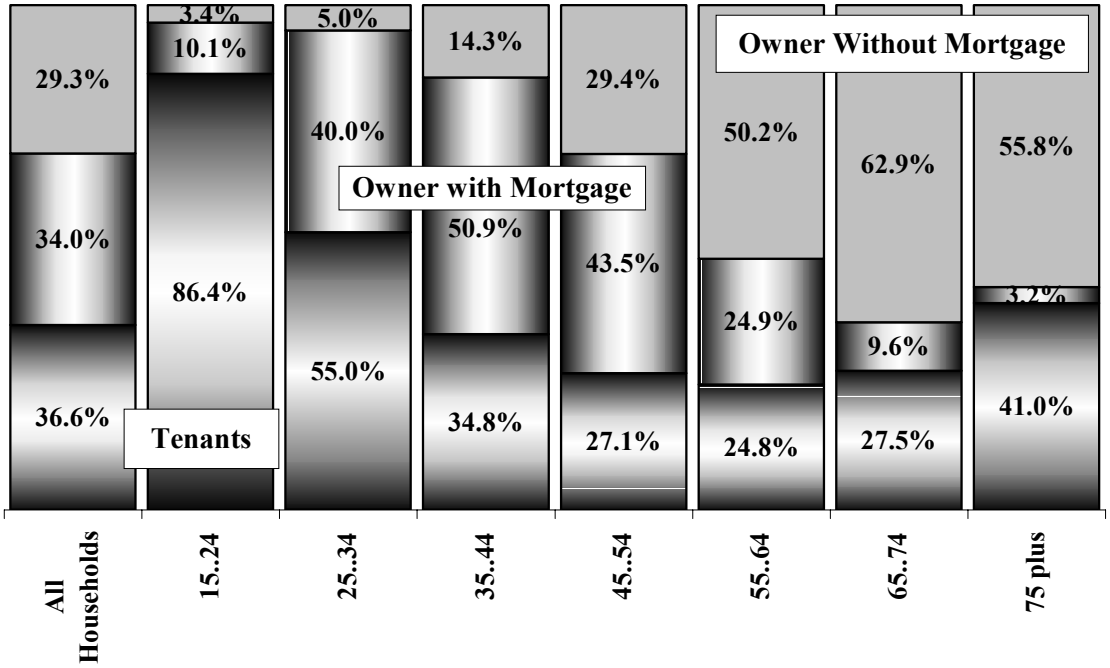
Figure 25: 1996 Population of Canada, 5 Years of Age and Older, By Mobility Status



As we age, we begin to be more focused, by choice or necessity, on the options that we are going to pursue, and hence we enter into longer term relationships, jobs, and housing arrangements. Thus with increasing age, the percentage of people who remain in the same place of residence for long periods of time increases and the percentage who are movers decreases. For example, of the 35 to 39 year olds living in Canada in 1996, 48% lived in the same dwelling they lived in five years earlier, almost twice the 25% for the 25 to 29 age group. Three quarters of people 60 to 64 years of age lived in the same dwelling in 1996 as they did in 1991, three times the share for the 25 to 29 age group. The increases continue, albeit at a slowing rate, right up to the oldest age group for which data are published, the 75 and older group, where 81% of the people lived in the same residence in 1996 as they did in 1991.

2. Expenditures. One of the long term commitments that many of us make as we age out of our twenties is to become owner occupiers of housing. Households with maintainers in the 15 to 24 age group are overwhelmingly tenants: 86.4% are tenants, and 13.6% are owner-occupiers (Figure 26)[22]. With increasing age, there is an increasing propensity to be owner-occupiers and a decreasing propensity to be tenants: by the 55 to 64 age group, only 25% of the households are tenant occupiers, with 75% being owner occupiers. From this age group on, the percentage of households who are tenant occupiers increases to 41%, and the percentage who are owner occupiers decreases to 59%.

Figure 26: Households by Age of Maintainer and Tenure, Canada 1996

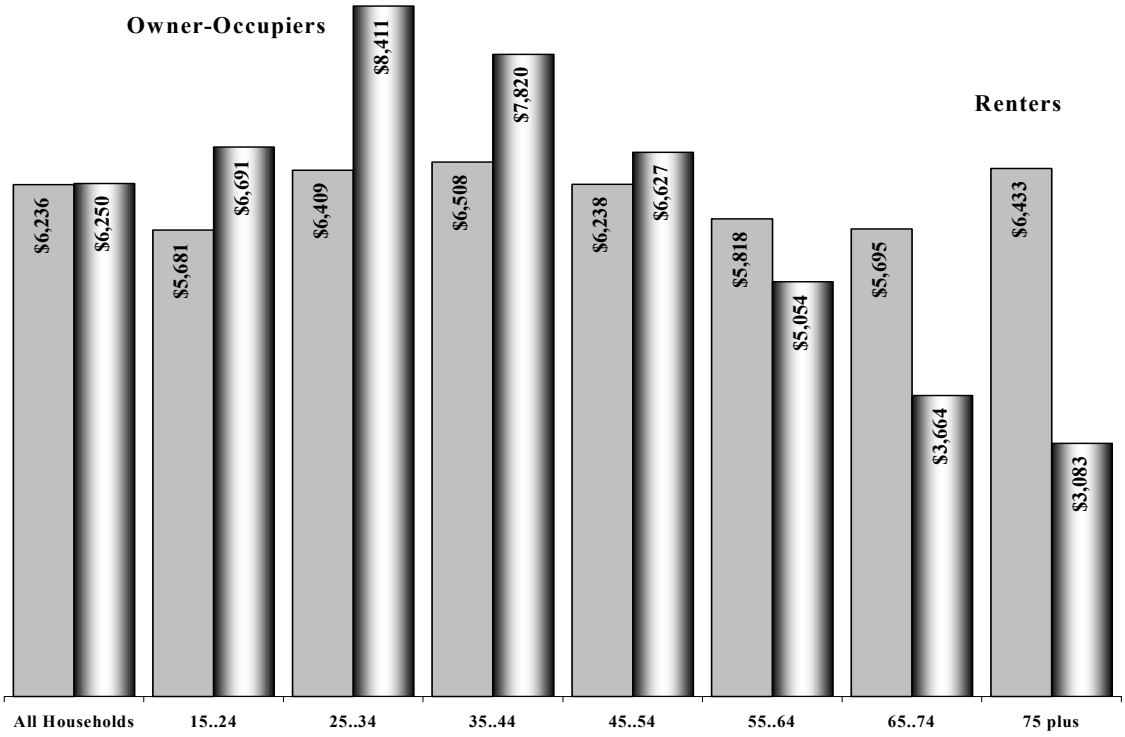


The long term commitment to be owner-occupiers involves two very special relationships, one with a mortgage lender and one with a property taxing authority: if we don't pay them, our long term commitment to our owner-occupied dwelling is taken away, along with our dwelling. In the 25 to 34 age group, 40% of the households are owner-occupiers with mortgages and only 5% are owner occupiers without mortgages: 89% of the owner-occupiers in this age group have mortgages on their homes.

As owner-occupiers age, more and more of them end their relationship with a mortgage lender, paying off the debt and becoming free and clear owners. In the 35 to 44 age group, 14% of all households (and 22% of owner-occupiers) are owner-occupiers without mortgages: in the 65 to 74 age group, 63% of all households (and 86% of owner occupiers) are owner occupiers without mortgages. While only 59% of the households with maintainers in the 75 and older age group are owner-occupiers, the 56% of them who are owner occupiers without mortgages comprise 95% of the owner-occupier households.

The end of the 25 year relationship with a mortgage lender has a significant impact on the amount households spend on housing (Figure 27). In 1996, the average tenant household spent $6,236 on principal accommodation (on rent, heat and utilities, and tenant insurance) almost exactly the same as the $6,250 that the average owner-occupier spent (on mortgage payments, property taxes, owner's fees, heat and utilities, and owner's insurance)[23].

Figure 27: Average Household Spending, Principal Accommodation, Canada, 1996

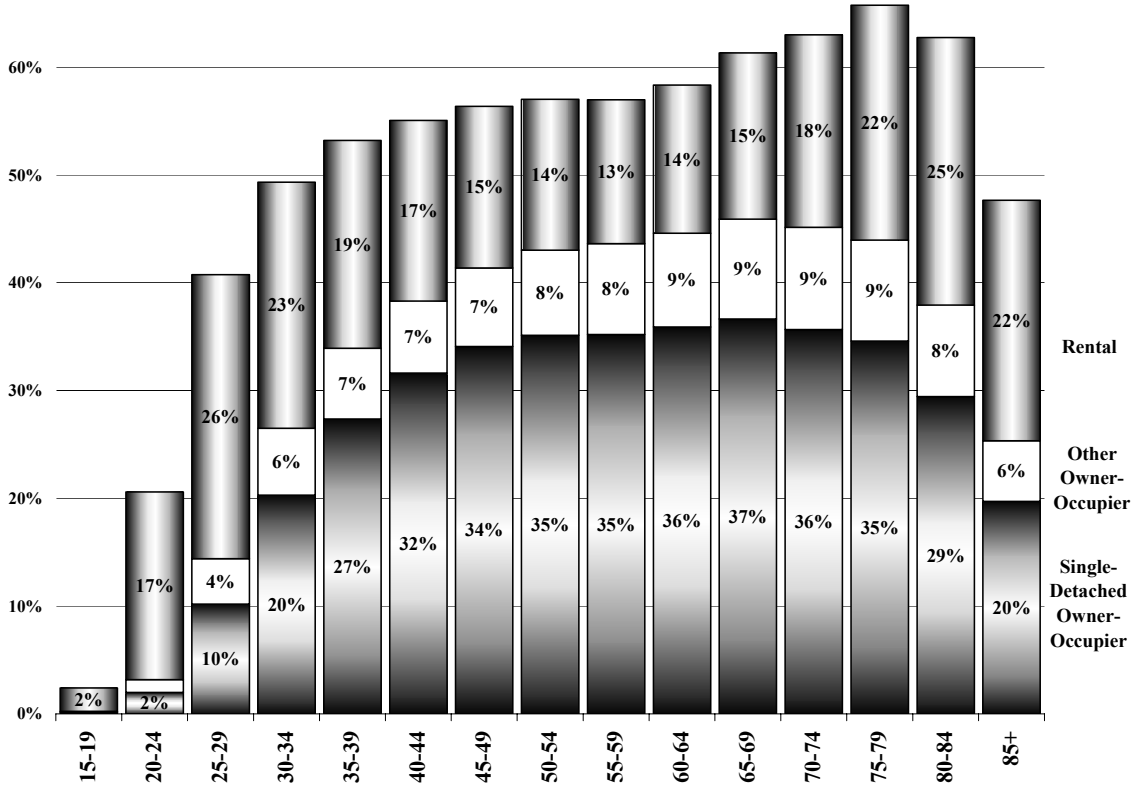


This does not mean that the amount spent is the same in every age group: younger tenant households (in every age group under 55 years of age) spend a lot less than young owner-occupier households. For example, owner-occupier households in the 25 to 34 age group spent an average of $8,411 on principal accommodation in 1996, compared to the $6,409 average for tenant households in the same age group. It is in the 25 to 34 and 35 to 44 age group that owner occupier households have the high propensity to be owner occupiers with mortgages, so it is in these age groups that owner occupiers have the highest housing costs.

In older age groups, the relationship is reversed: in every age group 55 and older, the average annual expenditure on housing for tenant households was greater than the average from owner-occupier households. For example, in households with maintainers in the 65 to 74 age group, the average owner occupier household spent $3,664 on their principal accommodation, while the average tenant occupier household spent $5,695.

The reason for the shift is that owner occupiers eventually pay off the mortgage. The average annual amount spent by owner occupiers for their principal residence exceeds that spent by tenants by the widest margin in the 25 to 34 age group where the greatest percentage of owner-occupiers have mortgages. As this percentage declines with age, the average spent by owner-occupiers approaches, then falls below, that of tenants. Owner occupiers' higher housing expenditures during their working years leads to lower housing expenditures in the retirement years. For tenant households, the average annual housing costs remain relatively the same throughout the life cycle, as their payments represent occupancy costs set in competition with all tenant households, rather than the process of debt incursion, reduction and elimination.

Figure 28: Age, Tenure & Structure Type Maintainer Rates, Canada, 1996



The high level of home ownership in older age groups is predominantly ownership of single detached houses (Figure 28): over 33% of the people in the 45 to 79 age groups are maintainers of households living in owner occupied single detached housing. The highest age group specific rate is the 37% rate in the 65 to 69 age group, followed by the 36% rate in the 60 to 64, and 70 to 74 age groups, the 35% in the 50 to 59 and 75 to 79 age groups, and the 34% in the 45 to 49 age group. Even in the 80 to 84 age group single detached owner occupancy is relatively high, with the 29% of the people in this age group who are maintainers of households in owner occupied single detached dwellings, almost as high as the 32% rate in the 40 to 44 age group.

As described thus far, the housing occupancy profile of a large portion of the older population is that of having a low probability of changing place of residence, a high probability of being owner-occupiers of single detached houses, and having low housing occupancy costs as a result of mortgage free home ownership. Retirees attach a great, and justifiable, importance to debt free ownership, as it means no rent and no mortgage to pay. With incomes that are generally both fixed and below employment incomes, retired households need, and seek, the security and certainty of debt free home ownership. Perhaps the single most important element of retirement planning for a Canadian household is the assurance that they will have the security of owning their home, so that they have both the control of the space in which they live and have occupancy costs limited to ownership fees, utilities and property taxes. Given the stresses that an aging population is going to bring to Canada's social services, the security and dignity that debt free home ownership can bring is something to be both preserved and extended to many as possible.

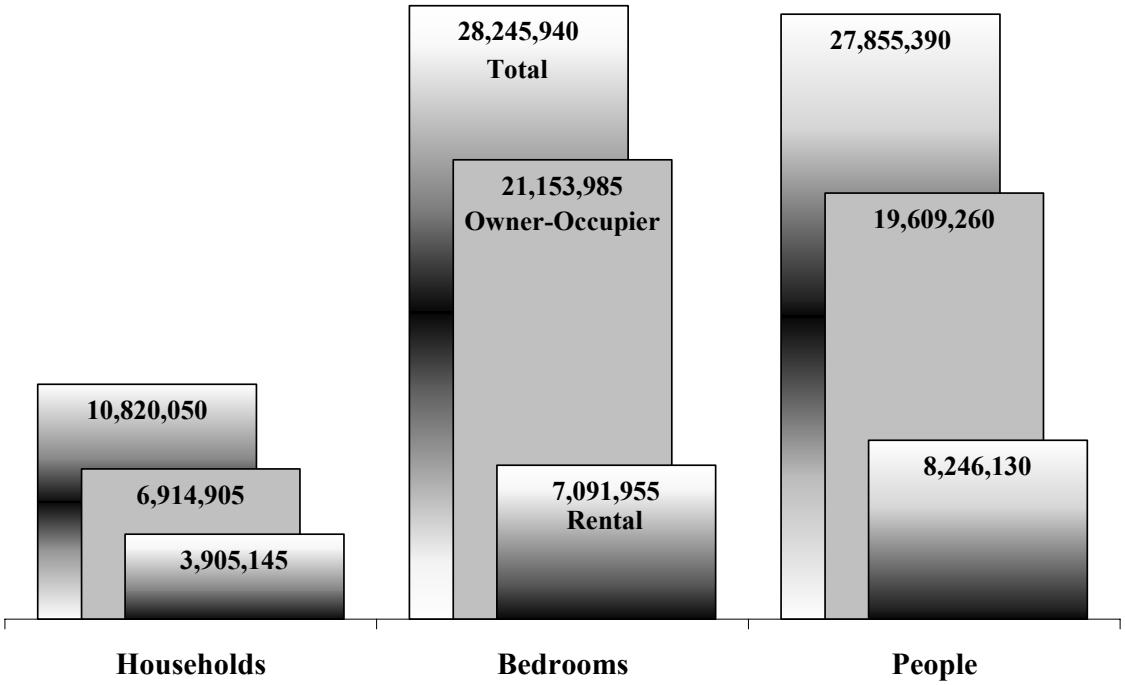
This is the up side of current housing occupancy patterns: the down side is that, for many households, debt free home ownership is not accompanied by an adjustment in occupancy when housing needs change. Declining mobility as people age often means that while they have the

security of home ownership, they also over consume housing: in many seniors households, particularly single detached, owner occupier households, there are more bedrooms in the dwelling than there are people in the household.

3. Empty Bedrooms. In itself, the high percentage of people in older age groups who are mortgage free owner occupiers of single detached dwellings is not of great import: it is the fact that many of these houses have more bedrooms than they have people to sleep in them. These are the 3, 4, and 5 bedroom houses that were purchased to raise a family in: now the kids have left to find homes in which to raise their kids, and the parents remain in the big old house. The extent to which these empty nests occurs is often not appreciated: there were 3.2 million empty bedrooms in single detached owner occupied dwellings with maintainers aged 45 plus in Canada in 1996, 11% of all of the bedrooms in all of the occupied dwellings in the country.

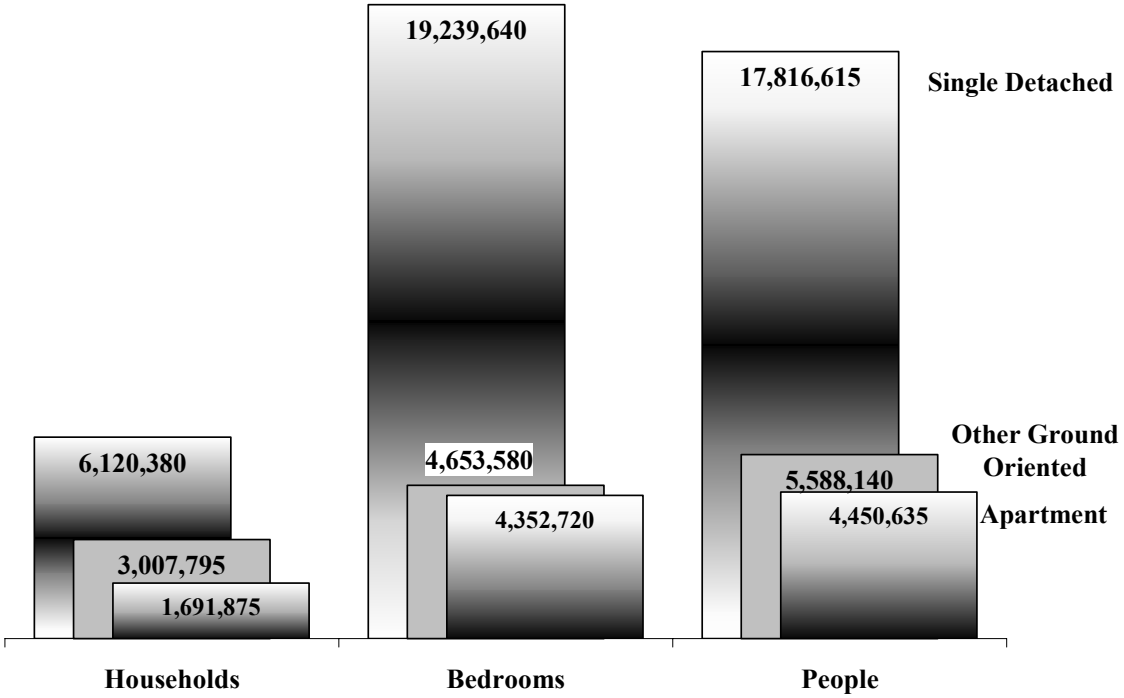
a. Averages. Even at the level of averages, the number of empty bedrooms in Canada is impressive. In 1996, there were 27,855,390 people living in 10,820,050 private households in occupied dwellings that had 28,245,940 bedrooms in them (Figure 29)[24]. This means that, assuming every Canadian had their own bedroom, there still was a minimum of 390,550 empty bedrooms in private occupied dwellings. The reason for the qualification of "a minimum" is that the averaging that occurs using aggregate numbers hides a lot of empty bedrooms: two people sharing a one bedroom dwelling and one person living alone in a two bedroom dwelling average out to a bedroom for each person, but there is really one empty bedroom.

Figure 29: Households Occupying Private Dwellings in Canada, 1996 Census



Before considering the detailed data, it is useful to examine the averages a bit further. In 1996 there were 19,609,260 people in 6,914,905 owner occupier dwellings with 21,153,985 bedrooms: there were a minimum of 1,544,722 empty bedrooms in owner occupied dwellings in Canada. It appears that there were none in rental: there were 8,246,130 people living in 3,905,145 rental dwellings, which had 7,091,955 bedrooms, which is 1,154,175 fewer bedrooms than people. This means that on average some of the people in rental dwellings were sharing bedrooms (or not sleeping in a bedroom).

Figure 30: Households Occupying Private Dwellings in Canada, 1996 Census



Examining the housing stock by tenure shows a similar pattern (Figure 30). There were 17,816,615 people living in 6,120,380 single detached dwellings that had 19,239,640 bedrooms. Assuming one bedroom per person, there were 1,423,025 empty bedrooms in single detached houses, with a further 97,915 in other ground oriented dwellings. The 3,007,795 occupied apartment dwellings contained 4,653,580 bedrooms and accommodated 5,588,140 people: there were more people than bedroom in apartments. This does not mean that there were no empty bedrooms in apartments: averaging will conceal empty bedrooms, as two people in a one bedroom suite and one person in a two bedroom suite is an average of one person per bedroom, even though there is one bedroom empty.

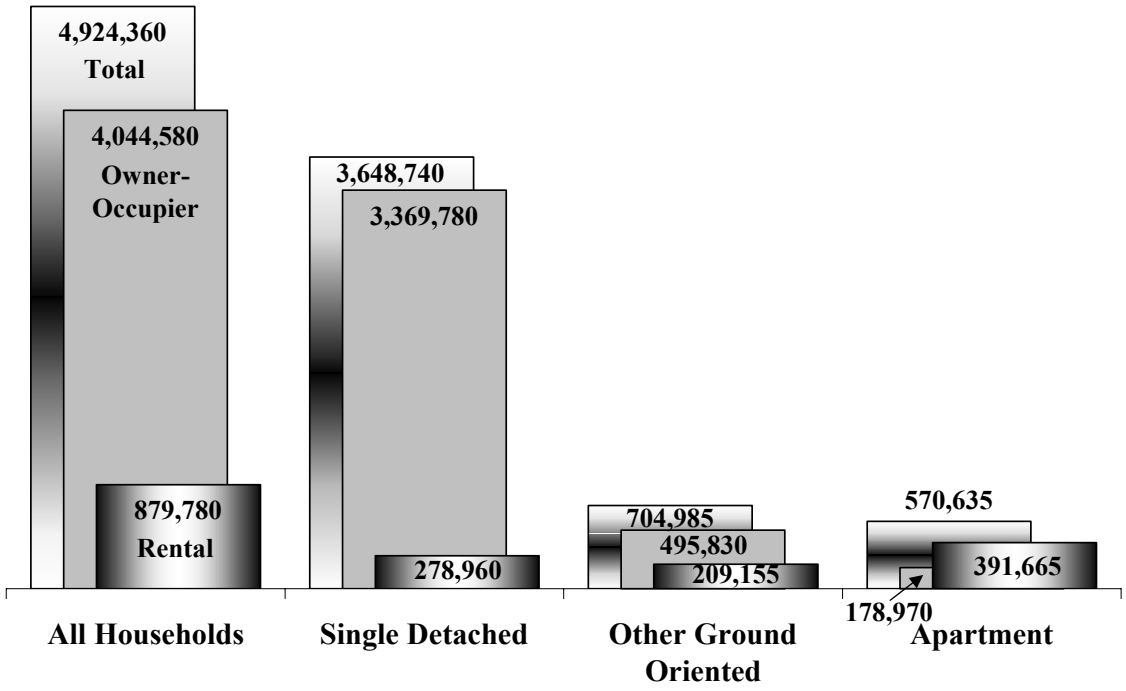
b. Bedrooms and People. A more accurate estimate of the number of empty bedrooms can be made by looking directly at housing occupancy data. In the 1996 Census questionnaire, respondents were asked how many people lived in their household, and how many bedrooms there were. A summary of the results is presented on Table One. It shows that, of the 10,820,050 occupied dwellings in Canada in 1996, 3,998,020 (37%) had three bedrooms, and 2,735,125 (25%) had two. It also shows that there were 3,420,655 two person households (32%), and 2,622,180 one person households (24%). The most common combination of people and bedrooms was the 1,263,775 households (11.7%) where there were 2 people and 2 bedrooms, followed by the 1,239,645 households (11.5%) where there were 2 people and 3 bedrooms.

In order to estimate the number of empty bedrooms, one bedroom per person in a household was considered to be the benchmark figure. Empty bedrooms would occur when there were more bedrooms in a dwelling than there were people to occupy them. For example, in the 1,239,645 households with 2 people and 3 bedrooms, there were a total of 2,479,290 people and 3,718,935 bedrooms. Applying the criteria of 1 bedroom per person means that there were 1,239,645 empty bedrooms in these dwellings. Applying the same criteria to all of the households where there were more bedrooms than people results in a total of 4,924,360 empty bedrooms in Canada, 17% of the total of 28,245,940 bedrooms.

Table One: Number of Households by Number of People and Number of Bedrooms, Canada, 1996

Number of Persons	Total Number of Bedrooms in Dwelling: None	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 or more	Total	Number of Persons
1 person	310,690	941,555	755,120	468,130	114,445	32,245	2,622,180	1 person
2 persons	65,205	405,950	1,263,775	1,239,645	364,380	81,700	3,420,655	2 persons
3 persons	17,765	70,190	459,810	901,095	311,335	68,055	1,828,255	3 persons
4 persons	9,295	34,545	190,355	1,016,600	487,155	99,715	1,837,665	4 persons
5 or more	4,585	19,775	66,155	372,545	449,555	198,680	1,111,295	5 or more
Total	**407,535**	**1,472,015**	**2,735,215**	**3,998,020**	**1,726,865**	**480,395**	**10,820,050**	Total

Figure 31: Empty Bedrooms by Structure Type and Tenure, Canada, 1996 Census



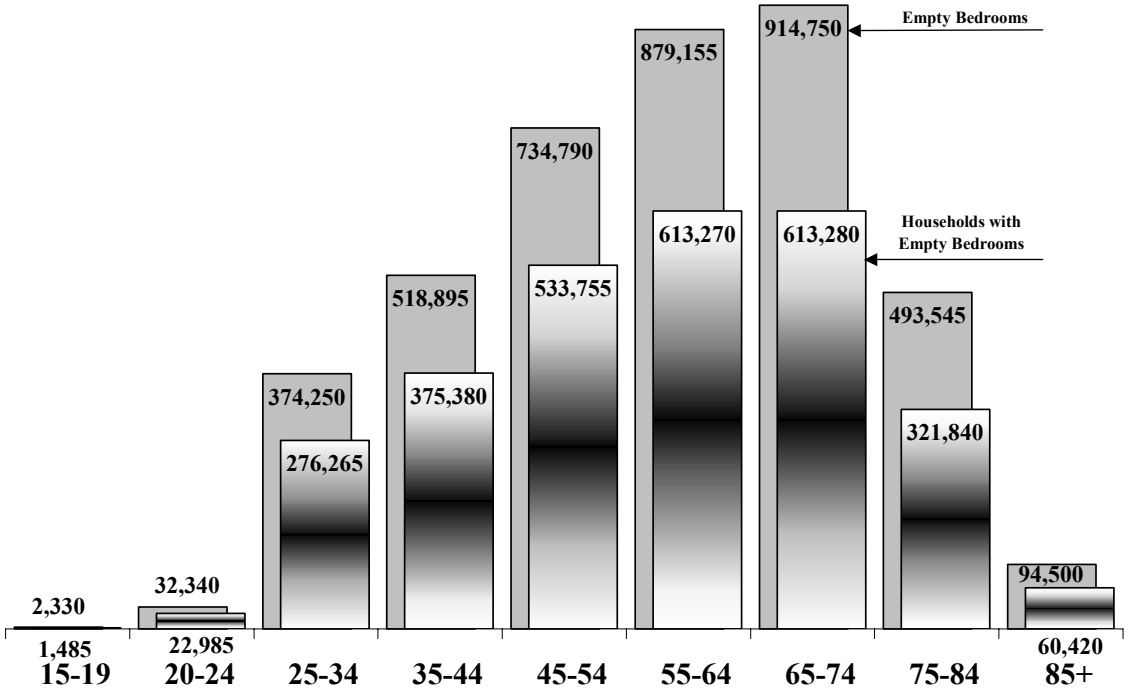
There were 3,534,770 households were there were more bedrooms than people: in these households, there were 6,278,420 residents and a total of 11,202,780 bedrooms, 4,929,360 (44%) that had no one sleeping in them. 4,044,580 (82%) of these empty bedrooms were in owner occupied dwellings, and 879,780 (18%) in rental units (Figure 31). 3,648,740 (74%) were in single detached dwellings, 704,985 (14%) were in other ground oriented dwellings, and 570,635 were in suites in apartment buildings.

This report is concerned with a very specific topic: finding a way to simultaneously improve land utilization, housing opportunities for new families, and retirement incomes, while maintaining the security of home ownership for retirees. As such, while the general topic of empty bedrooms may be of interest, the 716,070 rental households with 879,780 empty bedrooms in them are not relevant, as tenant households do not have financial equity in their homes. Rather the focus must be on the 2,818,700 owner occupier households with 4,044,580 empty bedrooms in them: it is here that the opportunity to better match housing occupancy and housing needs will be found.

There were 3,369,780 empty bedrooms (68% of all empty bedrooms) in owner occupied single detached houses, 495,830 empty bedrooms (10%) in other ground oriented owner occupied dwellings, and 178,970 (4%) in owner occupied units in apartment buildings. Given the interest here in efficiency of land use, the 178,970 empty bedrooms in apartments are not of great concern, nor are they of great magnitude. It is the 3,8656,610 empty bedrooms, 78% of all empty bedrooms and 14% of all bedrooms in Canada, in owner occupied single detached and other ground oriented dwellings that offer the greatest potential for improving the match between housing needs and housing consumption and for increasing retirement income.

Each one of these households has both more bedrooms than people to sleep in them and some financial equity in their home: as Figure 32 shows, most of these households are in the retirement, rather than the child raising, stage of the life cycle. Of the 4,044,580 empty bedrooms in owner occupier housing, 3,116,740 (77%) are in 2,142,565 households whose maintainers are 45 years of age or older: providing households in this age group with more incentives to match the number of people and the number of bedrooms in the dwellings they occupy will go a long way to both freeing up housing for new families and freeing up equity for retirement income.

Figure 32: Empty Bedrooms in Owner Occupied Housing in Canada, 1996



As would be expected from the forgoing discussion, the overwhelming majority of the owner occupier households with empty bedrooms and maintainers 45 years of age and older are in single detached dwellings (Figure 33). Of the 2,142,565 owner occupier households with empty bedrooms and whose maintainers are 45 years of age or older, 1,795,120 (84%) are in single detached housing: there are 3,928,280 people in these 1,795,120 households living in a total of 7,045,020 bedrooms, 3,116,740 more than the number of people living in these households. Of a total of 28,245,940 bedrooms in occupied dwellings in Canada in 1996, 11% were empty bedrooms in single detached owner occupier households whose maintainer was 45 years of age and older. Certainly these bedrooms were being put to some use, as a home office, a sewing room, a place for the relatives from Moose Jaw to stay when they visit: nevertheless, with the right incentives, it is logical to suggest that many households would be able to get by with fewer bedrooms and more retirement income.

Figure 33: Owner Occupied Households with Empty Bedrooms by Structure Type, Canada, 1996

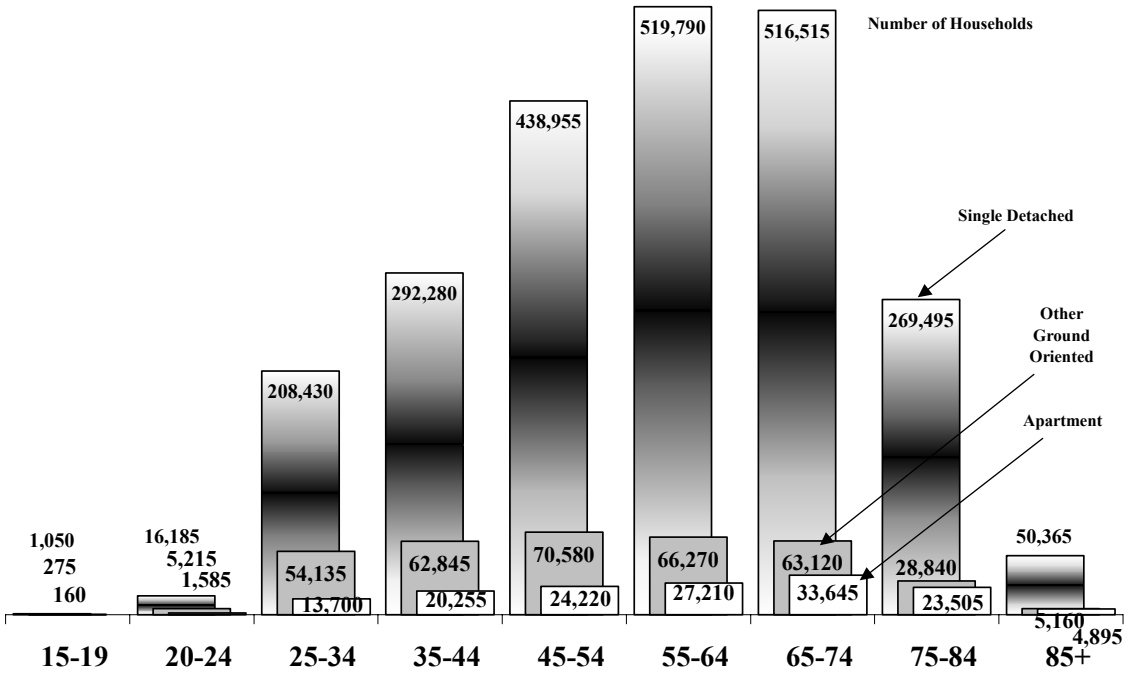
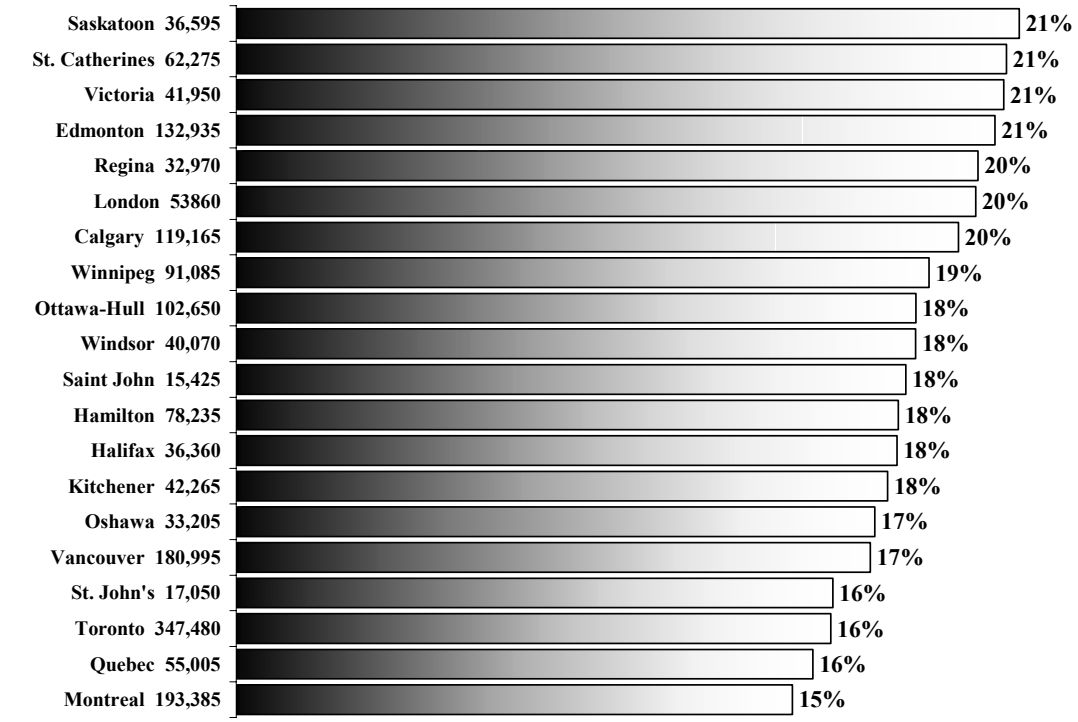


Figure 34: Empty Bedrooms in Single Detached Houses in Canada's 20 Largest CMAs, 1996



Empty bedrooms are found in every community in the country. For example, there are 3,018,935 single detached houses in the 20 largest census metropolitan areas (CMAs) in Canada, 49% of the total of 6,120,380 single detached houses in the country. There are 9,720,035 bedrooms in the single detached houses in these 20 CMAs, 1,712,960 (17.6%) of which are empty.

The percentage of empty bedrooms in single detached houses does vary between CMAs (Figure 34). In the Saskatoon CMA, there are 36,595 empty bedrooms in single detached houses, 21.2% of the total number of bedrooms in single detached houses in the CMA; in the Montreal CMA, there are 193,385 empty bedrooms in single detached houses, 15.1% of the bedrooms in this type of accommodation; in the Toronto CMA, there are 347,480 empty bedrooms in single detached houses, 16.1% of the number of bedrooms in single detached housing. Given the concentration of the maintainers of single detached dwellings with empty bedrooms in the 45 and older age groups, these empty bedrooms are predominantly found in the older, and closer in, suburbs of every city in Canada. The full houses of young families are in the new developments at the margin of urban development: the nestlings are driving past the empty nests on their way to work.

V. The Issue

An aging population in Canada will cause a significant increase in the beneficiary ratio, thereby increasing the rate of growth in the demand for intergenerational transfers from the slowly growing working age population to the rapidly growing elderly population. The divergence of the rate of growth for these two age groups has recently been referred to as a demographic time bomb that threatens Canada's social service plans, with cries for immediate changes to defuse it. Given the long and increasing life expectancies of Canadians, there are only two feasible directions to pursue solutions to the impending problems: reduce the need for intergenerational transfers and increase the contributions to the programs.

Increasing the amount of money individuals put aside for their own retirement would reduce the level of reliance on intergenerational transfers in the future: increasing RRSP contributions is one way to do this. With the majority of Canadians either not having a RRSP, or not having sufficient funds to use up their current RRSP contribution limit, increasing contribution limits, while encouraging saving, will not address the issue of those who do not use any or all of the amount that they are currently eligible to. Thus increasing contributions to RRSPs must also address the issue of increasing the amount of money people have to put into their RRSP.

Population growth in the working age groups will expand the base of the transfers by increasing the number of contributors, both directly to programs such as the CPP, and indirectly through taxation. As the impact of an aging population will be fully felt within the next thirty years, given Canada's low birth rates, growth in the contributory population will mainly rely on net inward international migration.

Increasing the contributory population will increase the total population, which in turn will increase the demand for housing and urban development. This will continue to raise concerns about the economic and environmental consequences of urban expansion, and about the efficiency with which existing urban land and infrastructure is used.

In raising issues of growth management, the increased demand for housing offers the potential to both reduce the need for intergenerational transfers of income and to improve the efficiency of land and infrastructure use. The potential lies with more strongly encouraging empty nesters, the 45 years of age and older mortgage free owner occupiers of single detached houses with more bedrooms than people, to better match their housing occupancy and their accommodation needs. By downsizing, the empty nesters will, directly or indirectly, assist in achieving a more efficient use of existing land and infrastructure resources. Such encouragement can be provided by ensuring that by downsizing, the empty nesters will remain as debt free owner occupiers (thereby retaining the security of homeownership) and be able to make a large contribution to their RRSPs. This in turn would result in greater private saving for retirement, and hence a reduced demand for intergenerational income transfers. A strategy that will do this is presented in the next section.

VI. The Retirement Income and Home Ownership Plan (RIHOP)

A. The Plan and Home Owners.

The core concept of the RIHOP is simple: when a household sells its principal residence and acquires another one at a lower price free and clear of mortgage debt, the members of the household would be eligible to put the entire difference between the net proceeds of the sale of the old house and the full acquisition costs of the new one into their RRSPs.

As neither the net equity returned, nor the net capital gain realized, from the sale of a principal residence are taxable, none of the RIHOP funds transferred into the RRSPs would be claimed as a deduction for income tax purposes. Once the RIHOP funds were in the RRSPs, the income earned on them would be treated exactly as that earned on all RRSP funds, and hence would not be subject to income tax until the income was withdrawn from the RRSP. As the RIHOP funds were transferred into the RRSP without being deducted from income, there would be no income tax charged on them when they were taken out of the RRSP. This would not only increase the diversity of households' retirement portfolios, it would also increase the liquidity: in the case of financial emergencies, portions of the RIHOP contribution could be quickly withdrawn (and re-contributed). [If governments had a strong commitment to encouraging both individual saving for retirement and efficient use of environmental resources, the program could allow some percentage of the RIHOP contribution to be claimed as a deduction against current income. This would increase the attractiveness of participation: this option is not considered in this report.]

The specific intent of the program is to encourage people to remain as homeowners, free and clear of mortgage debt, while giving them the opportunity to diversify their retirement portfolio to increase the income earning portion of the portfolio and reduce the home equity portion. The general policy intent of the program is to reduce the demand for intergenerational transfers of income that would otherwise accompany an aging population, and, at the same time, bring about a more efficient use of housing and land resources by encouraging households (particularly empty nesters) to better match their current housing needs and housing occupancy.

Example One. A two-person household, both of whom are aged 55, have been living in a four-bedroom home since their kids left to set up their own households. The mortgage was paid off five years ago. The couple sleeps in one bedroom, use another as a guest room, and the other two as offices (one for each of them) in addition to their offices at work (one can never have too much space in which to pile paper). The home, which sits on a 66 by 110 foot lot, has a current market value of $485,000.

If the household netted $465,000 from the sale of the empty nest, and spent a total of $230,000 for a new small lot house, they would have $235,000 to put aside for their retirement. If this money were invested outside of their RRSPs, every year the earnings on it would be subject to income tax at their current marginal rate. If the $235,000 net proceeds could be used as a RIHOP contribution to their RRSPs, it would earn income that was not taxed until it was withdrawn from the RRSPs. Further, because the $235,000 was locked away in the RRSPs, they would not spend it on treats (like a new SUV), and could withdraw all or a part of this capital amount at any time tax-free. They would still be home owners, free and clear of mortgage debt, but they would have reduced the amount of capital they have committed to the housing market (which they are not likely to liquidate for three decades) and increased the capital that is earning income for their retirement years.

In turn, a younger family, a couple of 35 years olds, would buy the older couple's four-bedroom house. This would give them the rooms and the space needed to raise the rambunctious four year old and two year old that are increasingly dominating every decision

the young family makes. To the extent that the four bedroom house is an older subdivision closer to places of work, and that the small lot or infill unit is of a smaller square footage and higher density, the land, construction, and transportation resources required to house these two families would be reduced. By helping households match housing consumption and housing needs through increased housing turnover, society would save scare resources and increase retirement savings. Even greater benefits would result if the older household moved to a condo apartment that cost them a total of $150,000. They would be able to put $315,000 into their RRSPs: at the same time there would be a significant increase in efficiency of land use, as growth in demand will have been a accommodated in a high density format.

For this to work, the younger family must be able to purchase the older households dwelling. Rising housing demand will ensure that there will be purchasers. There are families maintained by 35 year olds who can buy housing in established neighbourhoods. Further, in some cases, the older houses would "require some work", and hence would be of comparable price to new dwellings in more distant locations with higher transportation costs. In these cases, the RIHOP will increase the number of properties that are available for younger families to purchase.

The mutual benefit of this change in occupancy to both new and older residents and the social benefit of reduction in urban expansion and the associated environmental and infrastructure costs might encourage municipalities to allow subdivision of the big lot into two, the building of a duplex on the site, or the inclusion of a suite in the dwelling. If not, there is always the perennial favorite for informal densification, the illegal (or unauthorized) suite. All of these would enhance the value of the property to the vendor, reduce the effective cost to the new purchasers, increase the efficiency with which housing and infrastructure were used, and reduce the expansion of urban development into green zones and rural areas.

Example Two. A couple who are now fifty have been working since they were twenty in modestly paying jobs which gave them just enough money to raise their family and pay off the mortgage on their bungalow. Neither of them have an RRSP or a pension: their only retirement asset is the bungalow, which is currently worth $275,000. As it is now, once they retire, all they will have will be the house, their CPP and any transfer payments the government may be able to provide in a couple of decades when all of the other boomers are retiring.

If they sell the bungalow now, they can net $265,000, which will allow them to spend a total of $120,000 on a condominium apartment and put $145,000 away for retirement. Even at their low marginal tax rate, $145,000 invested as a RIHOP contribution to an RRSP would give them more retirement income that if it was invested outside an RRSP and subject to tax. With a RIHOP, upon retirement they will still be home owners free and clear of debt and have their CPPs; but they will be less dependant upon government transfer payments for income in their old age, and have a more diverse and liquid income generating retirement portfolio than if all of their retirement capital was locked up as equity in the bungalow. They will have a greater level of "old age security", as they will have the security both of un-mortgaged home ownership and of RRSP income.

In turn, their modest bungalow could be purchased by a young family, giving them the opportunity to find starter housing in an established neighbourhood, rather than having to commute long distances to find family housing that they can afford. Again, to the extent that the condo is at a higher density and of a smaller square footage that the bungalow, and that the bungalow is closer to work than the alternative housing that the young family would have considered, the program will result in better utilization of land, construction and transportation resources and reduced expansion of urban development. Saving the environment while saving for retirement has a nice ring to it.

Example Three. A household of two 53 year olds has a home in a major metropolitan region that they can sell for a net of $200,000. They want to semi-retire right now, and work on a freelance and consulting basis. While their incomes will be reduced, they will have enough to live on if they move to a small town whose population has been slowly declining and hence where housing and living costs are relatively low. A house in this community can be purchased for $50,000. The RIHOP program will allow this couple to put $150,000 into RRSPs to provide retirement income once the consulting and freelance work is over, without being taxed on the income that it will earn while they are still working. By doing so, the house in the metropolitan region will be made available for purchase by a younger household which was tied more closely to the metropolitan economy. It would also increase in the population in the small town, thereby making more efficient use of its valuable stock of existing housing and infrastructure resources.

There are many other scenarios that could be used as examples, but in all cases the general consequences would remain the same: an increase in RRSP investment and an increase in the efficiency of the use of the housing stock while retaining debt free home ownership.

Given the impact of compounding on investments, households would have a incentive to put some of their home equity into their RRSPs as early as possible, so their funds would be invested for as long as possible. This would not mean that they would rush the kids out the door, but that when it made sense to consider the option, there would be an incentive to do so sooner rather than later. Compounding is not the only reasons for making such an adjustment earlier rather than later: it gives the household time to become settled in the new home and the new community at a pace they control, rather than one imposed by the necessity of selling a home at a much older age, and at a young enough age that they can actively participate in the new community.

Not all empty nester households would respond to this plan. Those who already had very large RRSPs might not be motivated by the opportunity to increase their RRSPs and reduce their housing consumption. Those who were very, very attached to the family homestead would also not be swayed by the option, but, to the extent they did not have other, substantial retirement resources, it would certainly make them think about reducing their housing consumption. It would also not have an impact on the decision of those who have already decided to sell the ranch and move to an apartment.

Who it would have an impact on are households who are on the margin, aware that they are going to be house rich and income poor unless they do something, aware of the enormous risks of entering retirement with mortgage debt on their home or as tenants and of being dependent on government programs for income support, yet also quite aware of the tax bite that they would face if they reduced their housing consumption but had to invest the proceeds in taxable investments. For these households, the RIHOP would offer significant advantages.

The impact of the RIHOP on households in both the specific and the aggregate is completely positive. Households that could make a RIHOP contribution to their RRSPs would be better off, particularly those that were going to reduce their housing consumption in spite of the unfavorable tax treatment it would receive. Households that did not do so would be no worse off.

B. The Plan and Senior Government Finances

How government finances would be affected by this plan depends upon which hand of government we look at: the one that taketh away or the one that giveth. The one that taketh, the income tax department, would be largely, but not entirely, unaffected by the program. The extent to which it would be unaffected would be the extent to which households decided not to pursue the option, as obviously this would reflect the status quo.

The extent to which it would be positively affected would be the extent to which the RIHOP program induces households to reduce housing consumption: the greater the amount the household puts in their RRSPs, the more the tax department gains in the long run. At first glance, the reasons why the tax department benefits may be obscure. On the going in side, the tax department is indifferent to the program. If in the absence of the program the household decided not to sell the principal residence, the amount of equity tied up in the house would not earn income, and hence there would be nothing for the tax department to tax. Exactly the same situation would prevail if the equity were in a RRSP: the income that the net proceeds were earning would not be taxable. It is when the income that the RIHOP earned is taken out of the RRSPs that the tax department gets its bite: if the money had been left in the principal residence, there would be nothing for the tax department to get its teeth into. So to the extent that the RIHOP increased households' taxable withdrawals from RRSPs in the future, the program offers positive benefits to the tax department.

The extent to which the tax department was negatively affected by the program would depend upon the extent that households would have reduced their housing consumption by selling the principal residence without the option of putting net proceeds into their RRSPs. Without this option, the income earned on the residual funds left over after the purchase of the new house would be taxable: as these households could postpone taxation on this income under the RIHOP program, the tax department would have to wait to get their share. But note that the tax department does not lose the tax revenue, they only have to wait for it.

One could argue that even in this case the tax department would get more tax revenue from this group under the RIHOP than without it. Given that the RRSP locks the money up for a long period of time, it is possible to argue that not as much of the proceeds would be spend on current consumption (the RV, the cruise, the new furniture), and hence there will be more income to tax later on than if the funds were spent on toys today.

It is not possible to at this time to estimate the number of households that would sell the empty nest and reduce housing consumption under the RIHOP program: the 3,116,740 empty bedrooms in 2,141,565 owner occupier households with maintainers 45 and older suggests that there is a good sized empty nester market to draw on. Nor is it possible to measure how much these households would invest and how much they would spend with and without the RIHOP. As a result, it is only possible to conclude that the tax department would be better of in respect of those households who were induced to reduce housing consumption with a RIHOP, and perhaps somewhat worse off as result of having to defer taxing income for those households who were going to downsize anyhow.

The effect on the taketh part of the government has to be considered in light of the unquestionably positive effect of the program on the giveth part of government. To the extent that households remained debt free owner-occupiers, the housing market risk faced by seniors would be unchanged in type and reduced in extent (by virtue of the diversification of the retirement assets away from a concentration in their empty nest principal residence). Further, as their retirement income would be higher than it would be without the RIHOP program, the household would have more income to deal with increases in other costs of living (including utility costs, condo fees, property taxes, as well as food, health care and other goods and services). The increase in the number of mortgage free owner occupiers who had a better balance between housing consumption and housing needs, and between housing assets and income generating investments in RRSPs that the program could bring about would reduce the load on transfer payments for senior governments.

As was noted earlier, in light of the long term financial and environmental benefits that empty nesters downsizing and increasing retirement savings offers, the government could stimulate this program by allowing some portion of the RIHOP contribution to be claimed as a deduction against current income (treating it like any other RRSP contribution). This would have a short term negative impact on tax revenue, as there would be a greater contribution level, and hence reduced tax revenue. In the longer run, however, as this money was taken out of RRSPs it would be subject to tax (as would the accumulated income it had earned). If the money remained as equity in the principal residence, it would not be subject to tax, retirement savings would be lower, and the environmental benefits of more efficient housing consumption would not occur. The giveth and taketh sides of government will have to determine the degree to which they are will to trade some of today's revenue off for better use of resources and greater private retirement saving for the future.

C. The Plan and Communities.

Communities would unquestionably win from a program that brought about a better match between housing consumption and housing needs. On the social side, communities would be better off by a reduction in the number of house rich income poor households. On the land use side, they would be better off by increasing the number of younger labour force participants living in older, closer in residential areas, and increasing the effective density at which growth and change in urban areas was accommodated. This would reduce the direct costs of accommodating urban growth and change by reducing the degree to which infrastructure is extended into rural areas to convert them into suburbs. It would also reduce the environmental and indirect costs by reducing the amount of agricultural land that is converted to urban uses and reducing energy and pollution costs associated with long distance commuting.

It could also benefit communities if the increase in the number of downsizing households encouraged community planning for a greater diversity of housing within existing neighbourhoods so that the empty nesters remained in the neighbourhood after they sold the big old house. For example, empty nesters may be able to convince local planners to let them subdivide the big lot, sell half of it to the new family and keep half for themselves. Whether this means subdividing the house, infilling with a house in the back yard, or developing two small houses on the lot, dual occupancy[25] offers the opportunity to accommodate change and growth in communities while maintaining social continuity. Another way of doing so is to facilitate redevelopment of local collector street fronts to row housing and apartments.

VII. Conclusions

Aging will cause dramatic growth of the number of people in the beneficiary population relative to the number in the contributory population in Canada over the next four decades, and particularly during the 2008 to 2028 period. This will raise serious challenges to the sustainability of social programs in Canada, particularly to the "pay as you go" health care and income support plans. The Retirement Income Home Ownership Plan is proposed as a partial response to these challenges: it seeks to increase individual saving for retirement to reduce the need for intergenerational income transfers.

This program alone will not solve all of the problems that aging will bring to Canada's social systems in the coming years. It will, however, help to solve some of them, by preserving the security of mortgage free home ownership, increasing the ability of households to contribute to their RRSPs, and encouraging households to seek a better match between their housing needs and housing consumption, thereby improving the efficiency with which urban land resources are used. Ready or not, the challenges of an aging population will arrive: now it the time to get ready.

Notes:

[1] For a more detailed discussion of demographic issues in Japan see, David Baxter, "An Ancient Land, An Aging People", Business in Vancouver, April 6-12, 1999, pages 11-13.
[2] Readers wishing greater detail about the trends and assumptions used in this projection should consult Forty Million: Canada's Population in the Next Four Decades, The Urban Futures Institute (June 1999), the source report for this section.
[3] For a discussion of changes in life expectancy in Canada, see What Can You Expect? Life Expectancy in Canada, 1921 to 2021 (The Urban Futures Institute, July 1998).
[4] For a further discussion of birth rates in Canada, please see Babes in Lotus Land: Births, Birthrates and their Demand Implications in Canada, 1921 to 2021 (The Urban Futures Institute, December 1997).
[5] For further discussion of the demographics of immigration, see Immigration to Canada: Youth Tonic for an Aging Population (The Urban Futures Institute, July 1997) and Just Numbers: Demographic Change and Immigration in Canada's Future (The Urban Futures Institute, March 1998). Immigration includes all persons entering Canada as permanent residents, including refugees.
[6] For further discussion on the youthful age profile of intra and inter-regional migrants, see Ontario's Population in the Next Four Decades: Eighteen Million Strong and Growing (The Urban Futures Institute, August 1999), Population Four Million: Alberta's Population in the Next Three Decades (The Urban Futures Institute, April 1999), and Metropolitan Vancouver's Population in the Next Four Decades: Population Four Million (The Urban Futures Institute, May1999).
[7] The age profiles of the immigrant, and to a lesser degree emigrant, populations are slightly older than those of the in-migrant and out-migrant populations are. International migration is much more serious and arduous, requires more resources, and has entry requirements that require skills and education. These combine to make the immigrant and emigrant populations, while younger than the resident population, older than the in-migration population.
[8] For further discussion of the demographics of immigration, see Immigration to Canada: Youth Tonic for an Aging Population (The Urban Futures Institute, July 1997) and Just Numbers: Demographic Change and Immigration in Canada's Future (The Urban Futures Institute, March 1998).
[9] When a growth index has a value of 1.00 it means that there are the same number of people in the age group in the year under consideration that there were in 1999: when the value is 2.00, it means that there are twice as many, indicating a 100% increase in the number of people in the age group.
[10] Statistics Canada, 1996 Census of Canada Nation Series CD, Individual Incomes.
[11] Statistics Canada, 1996 Census of Canada Dimension Series CD, Sources of Income Table 3.
[12] Statistics Canada, Pension Plans in Canada 1998, Page 10.
[13] Association of Canadian Pension Management, Dependence or Self-Reliance: Which Way for Canada's Retirement Income System, Toronto, January 25, 2000.
[14] Ibid.
[15] Statistics Canada, Retirement Savings Through RPPs and RRSPs 1991 to 1997 (Ottawa, May 1999).
[16] For detailed discussion see Healthy Choices: Demographics and Health Spending in Canada, 1980 to 2035 (The Urban Futures Institute, July 1998).
[17] David Foot and Daniel Stoffman, Boom Bust and Echo, Macfarlane Walker and Russ, Toronto, 1996, page 32
[18] Ibid, page 33.
[19] Garth Turner, Letters to the Editor, Business in Vancouver, May 18, 1998
[21] Statistics Canada, 1996 Census of Canada Nation Series CD, Mobility Data
[22] Statistics Canada Custom Tabulation
[23] Statistics Canada Custom Tabulation
[24] Statistics Canada Custom Tabulation
[25] For suggestions on infilling on lots, see New South Wales Government Department of Planning, Dual Occupancy Design Solutions Manual.

The Urban Futures Institute and The Land Centre Publication Series on Housing Demand in British Columbia

This joint publication series of The Urban Futures Institute and The Land Centre focus on the 25 non-metropolitan regions of British Columbia (listed below). The reports were prepared to provide two sources of information about housing demand in these regions. First, they present demographically based projections of housing demand in each region for the period 1996 to 2021. Second, they provide background information on the housing stock and housing occupancy patterns in these regions, and how these changed over the 1991 to 1996 period. The preparation of these reports was funded in part by The Real Estate Foundation of British Columbia, whose assistance and support is gratefully acknowledged.

Report Number:

1. Alberni-Clayoquot Regional District
2. Bulkley-Nechako Regional District
3. Cariboo Regional District
4. Central Coast Regional District
5. Central Kootenay Regional District
6. Central Okanagan Regional District
7. Columbia-Shuswap Regional District
8. Comox-Strathcona Regional District
9. Cowichan Valley Regional District
10. East Kootenay Regional District
11. Fort Nelson-Liard Regional District
12. Fraser-Fort George Regional District
13. Kitimat-Stikine Regional District
14. Kootenay Boundary Regional District
15. Mount Waddington Regional District
16. Nanaimo Regional District
17. North Okanagan Regional District
18. Okanagan-Similkameen Regional District
19. Peace River Regional District
20. Powell River Regional District
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- Making Room - Land Use and Development Alternatives in the City of Kelowna and the Central Okanagan Regional District, 1998 to 2040
- Exploding Myths: Migration in British Columbia by Regional District, 1991 to 1996
- Changing Age Structure and Aging of British Columbia's Regions, 1991 to 1996

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