

CHARTING RETIREMENT

Are Canadians saving less for retirement?

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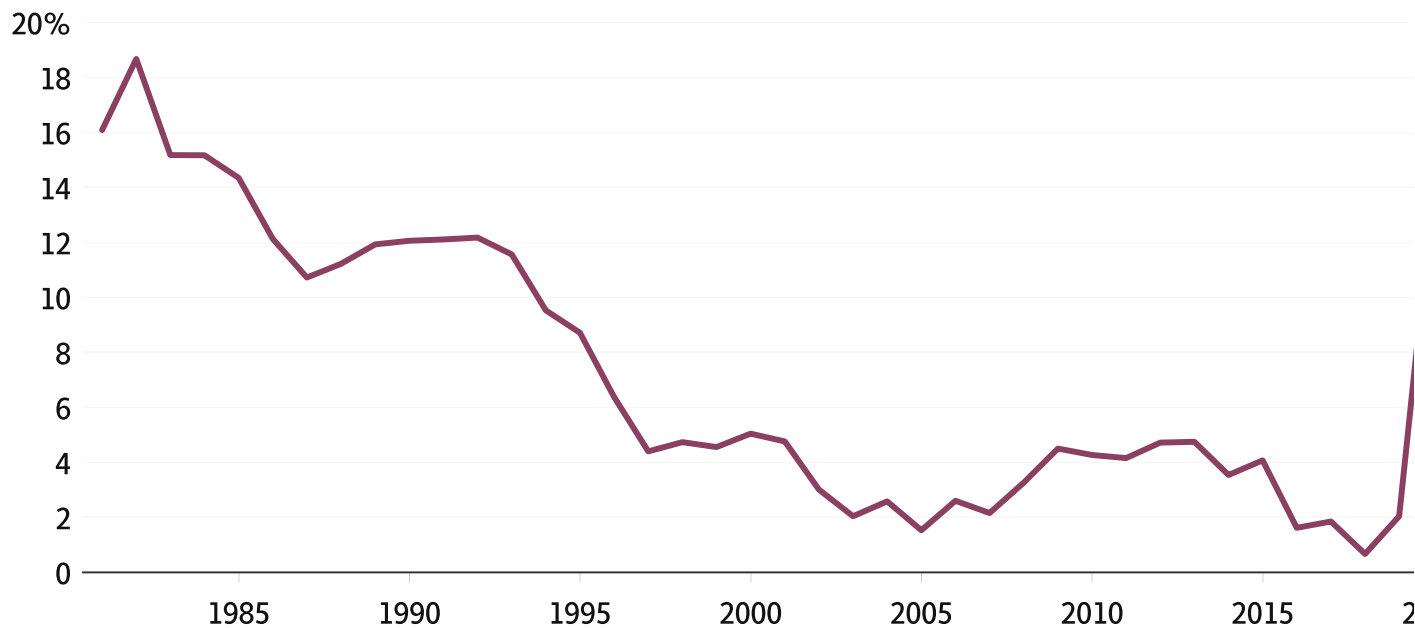
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Many people believe the retirement saving rate in Canada has been steadily dropping. The evidence usually given as proof of this is the trend in the household savings rate (HSR), which is reported by Statistics Canada. The chart shows that the HSR had indeed been falling since the 1980s – ignoring the spike in saving in 2020, the first year of the COVID-19 pandemic – but this fact says little, if anything, about how much Canadians are actually saving for retirement.

Are Canadians saving less for retirement?

Household savings rate as a percentage of employment earnings



SOURCE: OECD

There are at least three reasons why the HSR should not be used as a barometer for retirement saving. First, the HSR measures saving for the population as a whole, not just for those who should be saving, meaning the working-age population. The proportion of the adult population in Canada age 65 and over – who are not saving

much – has increased from 14 per cent in 1981 to 24 per cent today. This factor alone explains much of the drop in the HSR.

Second, the amounts that Canadians withdraw from savings accounts such as RRSPs or RRIFs are subtracted from savings when calculating the HSR. And making regular withdrawals from savings is precisely what retirees are supposed to do. Consequently, the increasing retired population further depresses the HSR. If half the country was working and half was retired, the HSR could very well be nil, even if workers were saving enough.

Finally, the savings rate does not include one of the biggest sources of money that is earmarked for retirement: the contributions that Canadians make toward the Canada/Québec Pension Plan (C/QPP). Since 2019, we have been in the midst of a major expansion of the C/QPP that is increasing both the contribution rate and the earnings ceiling. The expansion is also increasing C/QPP pensions. The higher C/QPP contributions might cause some Canadians to cut back on contributions to their RRSPs. As a result, the HSR might well drop further, even while Canadians' overall retirement security rises.

Note that the arguments in this article stem from a [2015 C.D. Howe Institute paper](#) written by retirement and pension expert Malcolm Hamilton.

This still leaves open the question of whether the average Canadian is saving enough for retirement; look for that answer in a future chart.

Frederick Vettese is former Chief Actuary of Morneau Shepell and author of the [PERC](#) retirement calculator ([perc-pro.ca](#))

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