

# 7 Steps Toward Better CPP/QPP Claiming Decisions

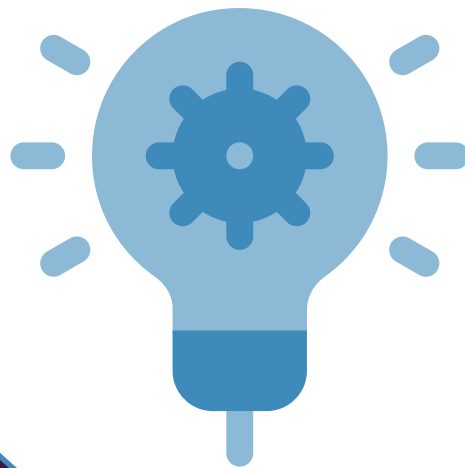
## Shifting the paradigm on how we help Canadians

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# Step #7:

## Strengthening CPP/QPP for Better Outcomes — Two Evidence-Based Reforms

STEP  
7



December 2024

**NIA** NATIONAL  
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# National Institute on Ageing



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## Paper Series Background: 7 Steps Toward Better CPP/QPP Claiming Decisions



### **Overview**

Shifting the paradigm on how we help Canadians.



### **Introduction**

Opportunities and obstacles to shifting the paradigm.



### **Step #1**

A new framework tailored to the retiree's perspective.



### **Step #2**

Making a case for secure pension income.



### **Step #3**

Retiring problematic narratives.



### **Step #4**

Providing the right information in the right way.



### **Step #5**

Strategies to strengthen the bond between between the current and future self.



### **Step #6**

Framing the financial benefits for the short-term self.



### **Step #7**

Strengthening CPP/QPP for Better Outcomes — Two Evidence-Based Reforms.

When to claim benefits from the Canada Pension Plan (CPP) — or its Quebec counterpart, the Quebec Pension Plan (QPP) — is one of the most important retirement financial decisions Canadians will make.

By waiting until age 70 to claim, Canadians can receive more than double the monthly pension amount than if they had claimed benefits at age 60. These higher payments last for life and are indexed to inflation. That's why for people who can afford to wait without hurting their lifestyle — either by drawing on personal savings or by working longer — choosing to wait to claim is a safe and inexpensive strategy that increases their lifelong income.

However, although most people can afford to wait, an overwhelming majority (9 in 10) choose to take their CPP/QPP benefits by age 65, reducing the lifetime income security they say they want and will most likely need.

This paper series aims to shift the paradigm toward more informed decision-making. Its purpose is simple: to propose new ways that those in positions of influence — such as financial advisors, pension plan sponsors, and policymakers — can help Canadians understand and benefit from the value of delaying CPP/QPP benefits.

The solutions are aimed at participants transitioning to retirement for whom delaying CPP/QPP benefits is in their best interests, but the solutions also support choosing to claim early where circumstances warrant this choice.

In either case, improving the clarity of the decision and helping people better understand their choices — and the consequences of those choices over the short and long term — leads to more informed and confident decisions, peace of mind and, ideally, better retirement outcomes for all.

# Table of Contents

<b>Authors</b>	<b>6</b>
<b>Key Contributors</b>	<b>6</b>
<b>Acknowledgements</b>	<b>7</b>
<b>Table of Contents</b>	<b>9</b>
<b>Paper in Brief</b>	<b>10</b>
<b>Introduction</b>	<b>13</b>
<b>Why Policymakers Need to Take Action</b>	<b>16</b>
<b>Reform #1: Establish a Mandate to Prioritize CPP Participant Outcomes</b>	<b>19</b>
Example of Unintended Consequences	21
A Missing Piece of the CPP Governance Puzzle	23
<b>Reform #2: Introduce a “Pension-back” Death Benefit</b>	<b>26</b>
The Root of the Problem	26
The Proposed Solution	28
How Will We Pay For It?	29
Why We Need a Pension-Back Death Benefit	32
Enhancing Pension Equity	33
The Potential Downside	35
Eradicating False and Damaging Narratives	35
Sidestepping Important Obstacles	36
The Time Is Now	36
<b>Conclusion</b>	<b>38</b>
<b>References</b>	<b>39</b>

## Paper in Brief

This paper series was a large-scale undertaking to unravel why retirees are not choosing the advantageous financial opportunity presented by delaying claiming Canada Pension Plan/Quebec Pension Plan (CPP/QPP) benefits. The goal was to propose practical solutions that could be easily and voluntarily adopted by government or industry stakeholders in a position to influence Canada's older adults when they are making CPP/QPP claiming decisions. This includes addressing the widespread and significant gaps in knowledge and support for the CPP/QPP claiming decision.

Throughout this journey, however, two key barriers have surfaced that can only be overcome through legislative changes.

First, our findings have reinforced the conclusion that Employment and Social Development Canada (ESDC) arrived at during their large-scale internal review: "... the information related to the Canada Pension Plan Retirement Pension, available through all channels, is not sufficient to support clients' optimal decisions with respect to their Retirement Pension." (Employment and Social Development Canada [ESDC], 2019, p. v).

This is a significant problem. CPP and Old Age Security (OAS) are the only federal income support programs that require participants to make a complex, high-stakes decision. Without appropriate supports in place to empower participants with accurate and appropriately timed information, too many Canadians are making hasty and uninformed choices, yielding to psychological biases and mental shortcuts that favour short-term outcomes over long-term financial security.

We have identified **gaps in governance** that contribute to this outcome. Pension legislation across Canada requires workplace-based pension plan administrators to act in the best interests of participants. However, this mandate appears to be missing in the case of the federal agencies and departments responsible for CPP. Without this clear mandate, other organizational priorities could inadvertently undermine participant outcomes. Specifically, Service Canada's mandate to administer CPP benefits has led to processes that are efficient but run contrary to what participants need in order to make informed decisions on when to claim CPP benefits.

ESDC and Service Canada administer several benefit programs governed solely by federal legislation and funded entirely from general revenues. In contrast, CPP is governed by a federal-provincial agreement and funded entirely by contributions from participating employers and workers. Consequently, Service Canada's role in relation to CPP is more like a third-party administrator than a plan sponsor. CPP's existing governance structures and processes do not reflect this.

Second, **the CPP/QPP benefit design is missing a critical feature**, without which retirees have difficulty making sound decisions. The biggest obstacle to delaying (among those who can afford to do so) isn't the lack of financial advantages; it's the fear of losing income in the case of early death. Known by behavioural economists as "loss aversion," this phenomenon is well-recognized in the pension and annuity world.

Experts consulted throughout this paper series, along with emerging research, suggest the issue runs even deeper. It's a matter of perceived fairness: retirees feel it is "unfair" to miss out on the income they would have received if they had claimed benefits earlier and died before recouping their lost payments. **This preoccupation with perceived fairness in the short term distracts retirees from the more relevant risk of living a long life with an inadequate lifetime income foundation.**

Rather than attempting to change or overcome inherent human biases, the most effective policy solutions will align with how people think, behave and make decisions. Built on a solid foundation of academic and practical evidence – and from our perspective as unbiased, independent experts at the National Institute on Ageing with a mandate to improve the well-being of older adults – we propose the following two reforms:



**1 Improve governance and introduce a mandate to prioritize CPP participant outcomes; and**



**2 Add a "pension-back" death benefit to both CPP and QPP that pays the difference between the cumulative amount the participant actually received and what they would have received had they claimed benefits at age 60.**

The first reform recognizes CPP's unique position among the multitude of programs administered by Service Canada. It calls for accountability to the contributing employers and workers in governance and oversight of CPP administration. Contributions were made to serve the best interests of the contributors, and that purpose must be paramount.

The second reform is a low-cost, equitable and effective solution inspired by evidence from academia, proven practices in the private annuity and pension markets and policy reforms in other countries. All this evidence confirms that uptake of a secure lifelong income option can be significantly improved by including some sort of "money-back" guarantee: a death benefit that provides the same amount of money in the case of early death regardless of the individual's choice. The proposed "pension-back" death benefit removes an important mental barrier, enabling retiring Canadians to make CPP/QPP claiming decisions that better meet their overall needs.

We lay out objectives for financing this reform and identify an approach that meets these objectives: a set of minor revisions to the CPP benefit adjustment factors that would leave the age 60 and 65 pension benefits unchanged, while modestly reducing pension benefits at other claiming ages. This financing approach reflects the necessity of maintaining the CPP contribution rate and age 65 pension benefits at their current levels.

**Importantly, the “pension-back” death benefit has the potential to significantly improve claiming behaviour, because it specifically targets the powerful cognitive bias that focuses participants’ attention on what they (and their estates) stand to lose by delaying benefits.** The proposed death benefit would address the sense of loss and injustice associated with the (unlikely) scenario of dying after age 60 but before receiving “enough” in CPP/QPP benefits to have made the decision to delay benefits worthwhile. In other words, from the perspective of the individual, it would reduce the downside associated with the financial gamble involved in the claiming decision and make a bet on longevity appear fairer.

The “pension-back” death benefit reform could also instill greater equity in the CPP/QPP programs – a long-standing systemic concern with the CPP/QPP design. Depending on the financing mechanism chosen, the proposed death benefit could reduce the disparity in the value of delaying CPP/QPP benefits between different subgroups of the population. Specifically, delaying benefits under the existing rules is known to be better for healthier, more affluent Canadians than their poorer, less healthy counterparts, owing to differences in life expectancy. With the proposed reform, the advantages of delaying CPP/QPP benefits could be more evenly distributed.

Both reforms put participants’ needs and perspectives at the centre while also supporting the broader needs of Canadian

society. They will improve intergenerational equity by supporting more efficient use of retirees’ financial resources to self-finance their retirement and will relieve pressure on retirees’ adult children – as well as the public purse – as Canada transitions into a “super-aged” society (i.e., a society in which more than 20% of the population is over age 65).

**Policymakers must appreciate that the ultimate purpose of the CPP/QPP programs – and the measure of their success – is the amount of money that ends up in the pockets of older Canadians when they need it.** There is a high standard of professional excellence and formidable effort invested in the various components of the CPP program by the Office of the Chief Actuary, Service Canada and CPP Investments, but these successes are undermined if participant outcomes are not supported by robust governance and sound design. Our proposed reforms specifically address both areas, dismantling these two barriers to additional retirement income security. Private consultations with select government officials and others who understand the strains Canada faces as our population ages all point to a positive reception for these reforms.

# Introduction

**“As the Peak 65 generation approaches its zenith, the universe of retirement security stakeholders that so fervently sought to address the generation’s need to save — through education, public policy and product innovation — must now address its need to manage those saved assets in a way that protects their standard of living.”**

(Fichtner, 2021, p. 3)

## Series in brief

This paper series aims to help those in a position of influence improve their approach to advising Canadian pre-retirees on the CPP/QPP claiming decision. The voluntary efforts of journalists, plan sponsors, employers and others can help Canadians get the most out of the CPP/QPP programs. However, the responsibility for shifting the paradigm ultimately lies with government administrators, policymakers and, to a lesser extent, the Canadian financial advisory industry: those whose core business is to inform Canadians about the CPP/QPP programs and their retirement choices.

A recent large-scale internal evaluation of Service Canada and its delivery of the CPP program vividly revealed a lack of basic information and support for CPP participants.

It demonstrated excessive confidence and uninformed decision-making among the vast majority of CPP claimants. While 87% of survey respondents claimed to “fully” understand the impact of their starting age on their monthly benefit amount, focus groups found people “don’t know what they don’t know” (ESDC, 2019, p. 40).

“Evidence indicates that very few clients actually know with any specificity what the difference in their monthly benefit is if they retire earlier than age 65.” (ibid, p. 41). The evaluation revealed major gaps in communications and support, particularly around the CPP benefit claiming decision: “General program information related to the Canada Pension Plan Retirement Pension, available through all channels, is not sufficient to support clients’ optimal decisions with respect to their Retirement Pension.” (ibid, p. v).<sup>1</sup>

This paper series has identified a significant disconnect between the common behaviour of claiming CPP/QPP benefits early and the expressed wants and needs of retirees. While the claiming decision is one of the most consequential financial choices a person will ever make (MacDonald, 2020; MacDonald et al., 2024b), people exert relatively little effort and, for the most part, make uninformed decisions. For those who can afford to delay, early claiming contradicts their stated desire for greater financial security throughout retirement, leaving them more vulnerable to their biggest financial fears: inflation and the

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<sup>1</sup> As reviewed in Step #4, attempting to accurately estimate CPP/QPP benefit levels at alternative ages is far beyond the capacity of participants and even most professional advisors. Experts who attempt to provide personalized advice are severely challenged by the complex CPP/QPP rules and the detailed earnings information required to perform accurate calculations of basic entitlements.

risk of running out of money (Macdonald, 2024a; MacDonald et al., 2024b).<sup>2</sup>

There is a time-sensitive opportunity to help older adults make better financial decisions. In 2024, the last and largest group of baby boomers will begin to reach age 60 and become eligible for CPP/QPP benefits. Between 2025 and 2030, 2.3 million CPP participants are expected to apply for retirement benefits (Office of the Chief Actuary, 2022). To put this substantial increase into perspective, there are currently only 6.4 million CPP beneficiaries of any age (ibid).

With this in mind, the federal and provincial governments – along with other key stakeholders – should be extremely motivated to steer pre-retirees toward financial decisions that best serve their individual circumstances, today and in the future. By taking proactive measures to ensure Canadians with adequate resources can better self-finance their whole retirement, policymakers can improve the lives of baby boomers for decades to come – and, ultimately, support the best interests of all Canadians.

This paper series has, so far, proposed numerous solutions to support those in positions of influence to improve transparency around the CPP/QPP claiming decision and counteract natural psychological biases:



Step #1: Reframing the presentation of the Canadian retirement income system;



Step #2: Comprehensively explaining the financial risks of retirement and the key advantages of having more secure lifelong retirement income from the individual's perspective;



Step #3: Dispelling problematic mainstream narratives that promote early claiming behaviour;



Step #4: Proposing improvements to government communications and online tools;



Step #5: Recommending approaches to help people connect with and care for their future older selves; and



Step #6: Proposing measures to explain the immediate financial advantages of delaying CPP/QPP benefits.

These recommendations are interventions that don't require changing legislation or benefits.<sup>3</sup> For the most part, they could be easily and voluntarily adopted by government and industry stakeholders. However, voluntary

<sup>2</sup> This paper series has reviewed a series of reasons why this is so. For example, the nature of the CPP/QPP claiming decision – a high-stakes, complex and once-in-a-lifetime decision – naturally gives rise to psychological biases that compromise informed decision-making. These biases include short-sightedness and mental shortcuts, impulsively reacting to short-term self-interest rather than carefully working toward the combined self-interest of their present and future selves [see the introduction of this paper series and Step #5 for further discussion, MacDonald (2024a; 2024b)].

<sup>3</sup> This series has proposed solutions that: (1) support informed decision-making through “boosts” (interventions whose goal is to make it easier for people to exercise their agency by fostering or boosting their individual decision-making abilities (Hertwig, 2017)) and (2) place an emphasis on long-term financial planning through “nudges” [interventions that promote an optimal choice without restricting or forcing options (Thaler & Sunstein, 2008; Sunstein, 2014; Thaler & Sunstein, 2021)].

adoption may not be enough, given that there is no clear legal responsibility or accountability for shifting the paradigm.

## This paper

Step #7 rounds out the paper series by building on lessons learned and proposing two fundamental solutions to make the CPP/QPP program more effective:

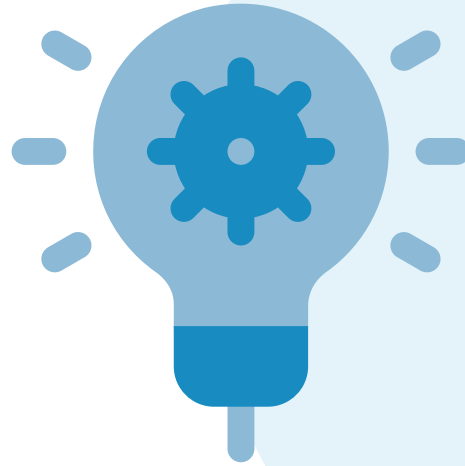


- 1 A clear mandate from federal and provincial sponsors to the government agents who administer the CPP program, requiring them to work in the best interests of CPP contributors and beneficiaries and prioritize participant outcomes; and



- 2 A “pension-back” death benefit that pays the difference between the cumulative amount the participant *actually* received and what they *would* have received had they started claiming benefits at age 60.

There is also room for bolder action by industry<sup>4</sup> – however, the government actions are far more important and pressing.



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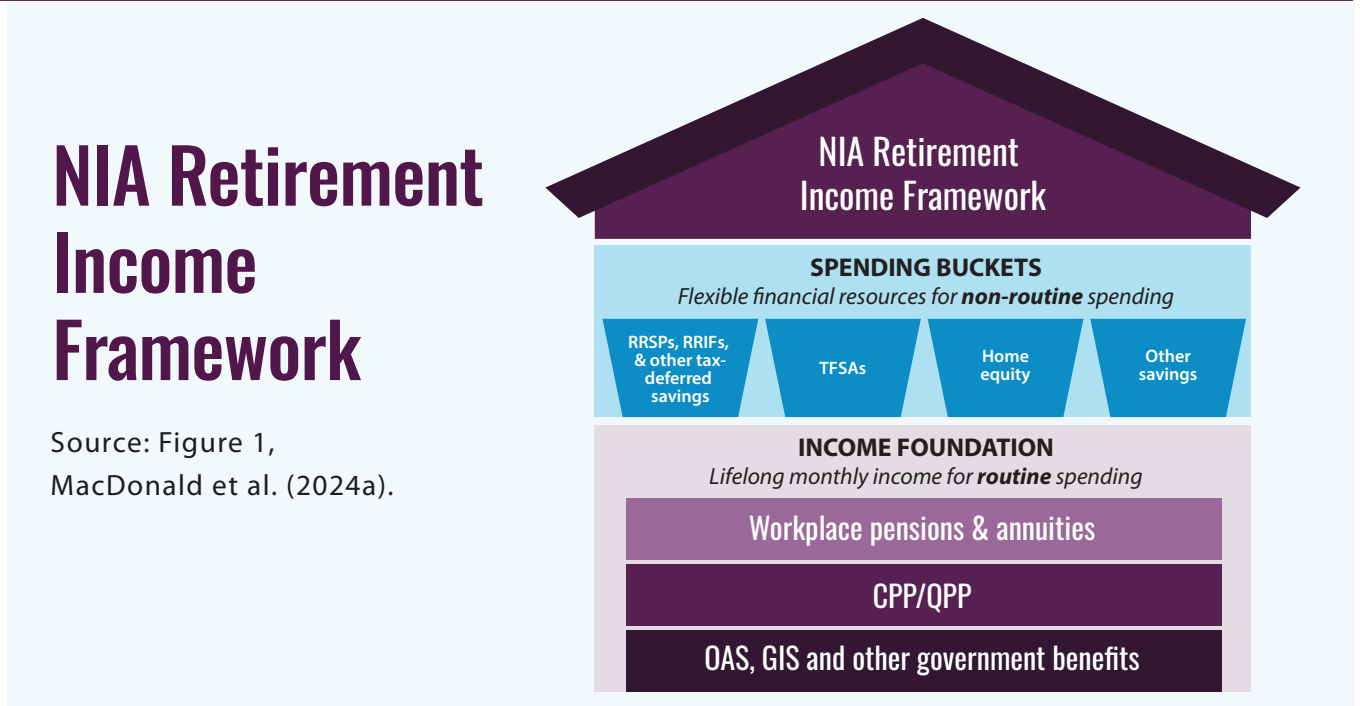
<sup>4</sup> Along with government, the industry has a role to play in ensuring the effectiveness of CPP/QPP, and there are opportunities for significant changes by these other stakeholders. For example, they can create new products to facilitate the use of registered savings to finance deferral of CPP/QPP benefits, as well as new tools to enhance the quality of advice from financial advisers. Some of these opportunities require changes to tax and pension benefits legislation, breaking down the barriers to selecting normal retirement benefits and bridge benefits linked to any age other than 65. Those opportunities may be explored in future research, but they are secondary to the solutions presented here.

# Why Policymakers Need to Take Action

According to the 2023 NIA Ageing in Canada Survey, 9 out of 10 recipients say their CPP/QPP pension is an important source of their retirement income, with 6 out of 10 saying it's essential and they can't live without it (Macdonald, 2024a). Delaying benefits from age 60 to age 70 can more than double a person's monthly pension income. For the average Canadian earning the median CPP income, this amounts to \$100,000 of additional secure income over their lifetime, in today's dollars (MacDonald, 2020). This additional income security can be pivotal for today's pensioners, as they face longer retirements with reduced sources of secure income and substantially reduced unpaid support from their adult children (who have traditionally served as the backbone of care for older adults) (MacDonald et al., 2024b).

The NIA Retirement Income Framework, as illustrated in *Figure 1*, separates the financial needs of older Canadians into a lifelong monthly *income foundation* for routine spending and flexible *spending buckets* for non-routine spending (MacDonald et al., 2024a). For many Canadians, delaying claiming benefits from CPP/QPP and OAS is their only option to shift the balance of their retirement resources from spending buckets to income foundation, thereby protecting themselves from their greatest financial risks and fears: inflation and running out of money (MacDonald, 2024a).<sup>5</sup> Yet, 9 out of 10 pre-retirees don't take advantage of this option and instead claim their CPP benefits by age 65, missing out on the opportunity to address their top financial priority in retirement: feeling financially secure for the rest of their lives (MacDonald et al., 2024b).

**Figure 1: NIA's Redefined Visual of the Canadian Retirement Income System**



## NIA Retirement Income Framework

Source: Figure 1, MacDonald et al. (2024a).

<sup>5</sup> U.S. surveys find retirees fear running out of money more than death (Allianz Life Insurance Company of North America, 2024).

As Step #2 explained, improving the CPP/QPP claiming decision will do more for Canadians than just protect them against income insecurity. It will also reduce psychological stress, increase retirees' confidence to spend and enjoy their hard-earned income and mitigate potential exposure to elder abuse by automating and rationing structured monthly pension payments from otherwise accessible savings accounts (MacDonald et al., 2024b). In short, when retirees have a sufficient "income foundation," they can lead happier, healthier, less stressful and more financially secure lives.

For financially vulnerable older adults who might endure financial hardship in the short term and loss of Guaranteed Income Supplement (GIS) benefits in the long term by deferring CPP/QPP benefits, the new retirement income framework – along with a clear understanding of the impact of their choices on their spendable lifetime income – will be crucial. The government needs to focus on informing pre-retirees about the combined impact of *all* government programs, taxes and clawbacks, so they can make good choices and enjoy a financially secure retirement (MacDonald & Chandler, 2024b).

However, this is not the only motivation for government action. As discussed in the introduction paper (MacDonald, 2024a), if retiring Canadians with adequate resources can't self-finance their retirement, it not only jeopardizes their own financial well-being, but it also strains the government programs that support financially vulnerable older adults. In 2018, when only one in three baby boomers had transitioned into their retirement years (i.e., age 65+), OAS (including the GIS) was

already the single largest federal budget item and health care was already the single largest provincial expense (Armstrong, 2018; Barua et al., 2016). The costs of these programs – along with various other programs that serve the older population – are financed on a pay-as-you-go basis out of general revenue and are expected to rise dramatically as the population ages.<sup>6</sup>

Canada's population aged 75+ will double over the next 20 years while the rest of the population grows by a mere 14%.<sup>7</sup> Failing to improve CPP/QPP retirement income outcomes can have major direct and indirect implications for federal and provincial governments, such as:

- An increase in expenditures on income-tested programs for older Canadians;

- Potential increases in tax rates, reductions in spending or increases in deficits, due to reduced tax revenue from CPP/QPP recipients;

- Increased health expenditures for older adults who lack the resources for proper nutrition and healthy lifestyles;

- Lower economic growth, due to diminished consumption by older cohorts; and

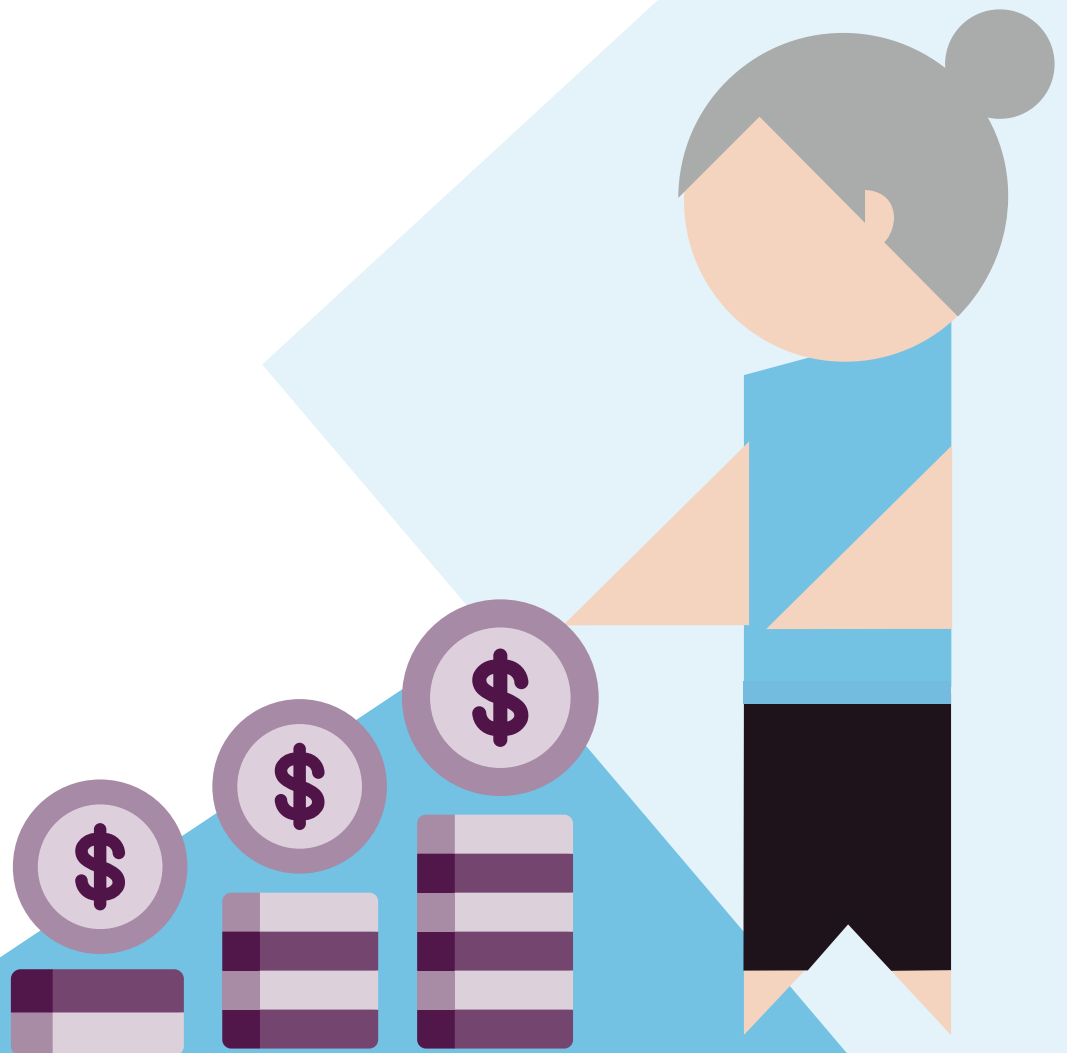
- Unsustainable intergenerational transfers from younger cohorts to older ones – including the need to provide unpaid care, which often forces adult children out of the workforce, compromising their financial health and negatively impacting the economy (MacDonald et al., 2019).

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<sup>6</sup> If Canada continues on its current track, the cost of publicly funded long-term care for older adults is expected to more than triple in 30 years, in today's dollars (MacDonald et al., 2019).

<sup>7</sup> Source: Statistics Canada (2024a). Table 17-10-0057-01; Projection scenario M6: medium growth.

Tax-deferred savings programs like CPP/QPP, registered retirement savings plans (RRSPs) and workplace-registered pension plans are a collective public investment in the future of Canadians. Effectively, governments are silent partners in all these plans, contributing tax deductions and credits when contributions are made and collecting tax revenues when benefits are paid. It's the government's responsibility to institute policies that will maximize the payoff on this investment for the benefit of all Canadians.



# Reform #1: Establish a Mandate to Prioritize CPP Participant Outcomes

*(Note: Since the legal and administrative framework for QPP is notably different from that of CPP, this section does not directly apply to QPP, although some content may still be relevant.)*

As explained in Step #3 of this paper series, the CPP's funding and governance are unique. Like a workplace pension plan, it is funded by employer and employee contributions. Aside from tax deferral and contributions for their own employees, there are no direct government contributions. Federal and provincial governments share control of the benefit provisions and contribution rate.

As with any other pension plan, administering CPP includes “oversight, management and operations of the [...] plan and [its] pension fund” (Canadian Association of Pension Supervisory Authorities [CAPSA], 2016, p. 11). There are many parties involved in fulfilling this important role, including several federal ministers<sup>8</sup> as well as various agencies and government departments acting as delegates. Delegates with specific functions include the following:

- CPP Investments, which provides investment services at arm's length from both the federal and provincial governments under the direction of the CPP Investment Board;

- The Office of the Chief Actuary of Canada, an autonomous arm of the Office of the Superintendent of Financial Institutions in the federal Department of Finance that is responsible for performing actuarial valuations and other studies measuring the program's financial sustainability;
- The Canada Revenue Agency, which is tasked with collecting CPP contributions; and
- Service Canada (within ESDC), which acts as the CPP's benefit administration agent.

While the governance structures and administrative practices of large Canadian pension plans have evolved significantly in recent decades and attracted attention and praise worldwide, the administrative processes and governance functions of CPP have not kept pace.

For example, an important aspect of pension plan administration is providing appropriate disclosures and communications to help members understand the plan and support their decision-making. This responsibility is recognized in CAPSA's governance guidelines, which call for plan administrators to “establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other

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<sup>8</sup> The CPP Act specifically names the Minister of National Revenue as responsible for Part I (Contributions) of the Act and the Minister of Employment and Social Development for Part II (Pensions and Supplementary Benefits) and Part III (Administration). They are to be supported by the Minister of Public Works and Government Services as needed.

stakeholders” (ibid, p. 9). Among other tasks, plan administrators are expected to inform plan members “of the risks, benefits, options and responsibilities of membership in the plan” (ibid, p. 10).

The CAPSA guidelines don’t specify *how* administrators are to achieve this; however, workplace pension plans are governed by provincial or federal pension benefits standards legislation, and minimum disclosure requirements are laid out in the relevant regulations. The extent of a pension plan administrator’s engagement with plan members falls along a spectrum from compliance to enhanced communication, education and, occasionally, advice. If financial advice is offered, it is provided by staff or external contractors with the appropriate qualifications.

The administrators of Canada’s largest pension plans go far beyond compliance; they have dedicated member communication departments that specialize in providing information and guidance on plan features and retirement financial planning. The focus of these efforts is on **improving outcomes**, and these activities are critical to ensure both participating employees and employers reap the economic benefits of directing a portion of total compensation to a retirement income plan.

When it comes to CPP, the approach to disclosures and communications is very different. The CPP Act requires the government to provide a statement of a

participant’s contributions, if requested, and pay benefits if and when an application from a participant is received. In addition to these minimum legal requirements, as the public-facing agency for administration of CPP benefits, Service Canada proactively sends letters to Canadians to alert them to their CPP entitlements and takes other steps to explain the plan provisions [see Step #4, MacDonald & Chandler (2024b)]. Online systems have been developed to expedite the benefit application process and the delivery of legally required services by Service Canada. **However, there is a clear gap: no party is explicitly responsible for monitoring and evaluating participant outcomes.**

As the party responsible for benefit communications, control over participant outcomes has fallen, by default, to Service Canada. Step #4 focused on improving communication efforts by removing the subtle biases within government CPP/QPP communications, as well as ensuring that participants can access basic information on their pension entitlement.<sup>9</sup> But how did these subtle biases come to exist in the first place? And why have they been allowed to persist, despite ample evidence pointing to their negative influence, not only in academic literature, but also in CPP outcomes characterized by prevalent early claiming behaviour?

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<sup>9</sup> Step #4 identified information gaps and unintended psychological influences in current government communications that can lead people to claim benefits early. Based on research and evidence, it proposed alternative approaches that deliberately time and design the information to empower participants by recognizing their needs and desires while counteracting psychological biases that undermine their best interests. It also recommended a government-sponsored comprehensive, accessible and user-friendly online calculator that, together with communication and support, can boost a person’s competencies and encourage them to invest time, seek help and take action.

## Example of Unintended Consequences

Without a clear mandate, other organizational priorities can inadvertently undermine participant outcomes. Specifically, Service Canada's mandate to administer CPP benefits has led to processes that are efficient but that can run contrary to participants' needs in making an informed CPP/QPP claiming decision, resulting in negative unintended consequences.

For example, introducing an online CPP application process has made it very easy for participants to apply for CPP benefits. According to ESDC's recent large-scale internal review, almost half (45%) of CPP claimants do so online through their "My Service Canada Account" (ESDC, 2019).

From the perspective of Service Canada as a government benefit administrator, this is a service delivery success – however, it may work against participants' best interests. Since an application can be completed online in only 20 minutes, this highly complex, life-changing decision can be made quickly without any help or consultation.

As discussed in the introduction paper (MacDonald, 2024a), choosing when to claim CPP/QPP benefits is a high-stakes financial decision with long-term consequences. However, this decision-making complexity creates the risk of "satisficing" (Simon, 1955):

the human tendency to use mental shortcuts to arrive at a quick "good enough" decision. While pragmatic and necessary in most areas of life, this natural cognitive heuristic can undermine a person's best interests when applied to complex decisions, particularly when it comes to planning for retirement.<sup>10</sup>

In the 2023 NIA Ageing in Canada Survey, only 1 in 7 CPP/QPP recipients reported putting significant effort into the claiming decision, with the remaining saying they gave it "some time and attention" or "made the decision quickly without giving it much thought." What's more, nearly 4 out of 10 said they consulted nothing and no one (Macdonald, 2024a).

The ESDC internal evaluation consistently found gaps in in-person support around the CPP claiming decision. According to that study, half of front-line ESDC employees reported that CPP participants "often" or "almost always" could not locate the relevant information online or did not find online information clear, sufficient or specific enough for their needs. Also, 81% reported that participants "often" or "almost always" experience difficulties reaching CPP/OAS Specialized Call Centres. "Others said they do not get the information or assistance that they need from the In-Person and/or telephone channels so they resort to applying online without assistance." (ESDC, 2019, p. 32).

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<sup>10</sup> "While participating in the CPP/QPP programs is simple, deciding when to claim benefits is not. This complex, high-stakes financial decision presents a sudden and dramatic shift, requiring people to evaluate poorly understood, remote outcomes influenced by a myriad of unknown and evolving factors – including future financial needs, health and projected age of death and the broader state of the economy (e.g., investment returns and inflation). This critical financial decision is made against a complicated backdrop of personal preferences, expectations, emotions (including anxiety and fear) and attitudes toward retirement and ageing. Academic literature has established that, left unaddressed, such complexity leads to poor decision-making. The multi-faceted complexity of such a decision creates what psychologists deem to be the most difficult type of choice for humans to tackle alone, paving the way for perverse influences, psychological biases and exploitation. Research has also found that this complexity also leads to a major disconnect between what people want and what they actually choose to do." (MacDonald, 2024a, p. 13). [For further discussion and evidence, see the introduction paper of this series, MacDonald (2024a)].

With this context, the outcomes are not surprising. As noted, while the majority (87%) of survey respondents claimed to “fully” understand the impact of their starting age on their monthly benefit amount, focus groups found very few people know with “any specificity” how their lifelong pension benefit was affected by early claiming (ESDC, 2019, p. 41).

## Prioritizing participant outcomes

While the online pension application process is highly efficient, it runs counter to behavioural finance, which encourages people to slow down and seek help when making difficult and consequential financial decisions. Kahneman (2011) explained that, when making important and complex decisions, people need to intentionally move beyond their intuitive, automatic and emotionally driven thinking to engage their deliberate and rational thinking mind, which is less readily available and more cognitively demanding. When people shift from impulsive thinking to more analytical “slow” thinking, they are less prone to mistakes and biases (Kushniruk, 2001; Kahneman, 2011).

Encouraging people to spend more time on the CPP/QPP claiming decision has a wide range of advantages. For example, Liebman and Luttmmer (2015) found that people who better understand their social security benefits tend to work longer, which provides economic, social, cognitive and health benefits (Waddell & Burton, 2006). Bateman et al. (2018) found people who exert more effort in learning about retirement income products often make the better choice of using their savings to purchase additional safer, annuitized, lifelong retirement income. Kruger et al. (2004) identified the “effort

heuristic,” meaning people put greater value on decisions that take a longer time to make. Noone et al. (2009) identified a positive relationship between greater financial planning and well-being after retirement, in terms of life satisfaction and subjective physical and emotional health. Cook et al. (2010) noted that, after policymakers improved their communications on U.S. Social Security, citizens had more knowledge of the program and greater trust in it.

## Developing new processes to support better outcomes

In addition to the suggestions and solutions proposed throughout this series, those responsible for participant outcomes should encourage claimants to slow down and patiently investigate the nuances of the CPP/QPP claiming decision.

For example, instead of enabling hasty decisions to achieve administrative efficiency, introducing “sludge” interventions can lead to better outcomes. In direct contrast to “nudge” interventions, which aim to help people make better decisions by making certain choices easier, “sludge” interventions are designed to make a process slower – in this case, to empower more informed decision-making. The following are two such strategies.

1. **Require participants to talk with a specialist (in person or by phone) before claiming benefits.** The ESDC’s internal evaluation found most questions (60%) asked of Service Canada specialists by the public were related to understanding the right time to apply for public pensions.

Before claiming benefits, there should be a mandated in-person or phone touchpoint with a specialist to review a series of standardized checks and ensure that the claimant has the minimum basic information to make an informed decision (including their benefit entitlements at alternative claiming ages) using accurate estimates [see Step #4, MacDonald & Chandler (2024b)]. Such a conversation would bridge the information gap and also provide an opportunity for the claimant to ask questions. This could be done by phone or at a Service Canada Centre.<sup>11</sup> It could even be subcontracted to independent counsellors with appropriate training and oversight.

In addition to giving people the support they want and need and providing precise answers to complicated questions, in-person support has other advantages. For example, helping people “think aloud” can improve their capacity to process complex information and encourage them to use their reasoning skills (Kushniruk, 2001). Reinforcing the importance of this decision can help avoid “satisficing” and instill the desire to fully examine it.

2. **Require explicit acknowledgement of early claiming and its impact.** Another strategy is to require those choosing an earlier claiming age to sign a statement that explicitly acknowledges the monthly benefit reductions. This could be effective in encouraging people to think twice, as it triggers the natural inclination to not go against the status quo (Choi et

al., 2006). “Ensuring that every worker is fully aware of the consequences will help to combat both the lack of information and the propensity to select immediate gratification” (Akabas, 2011).

Interventions such as these could help make the CPP benefit application process a bit more “sluggish,” boosting the individual competencies of participants to make more educated decisions.

## A Missing Piece of the CPP Governance Puzzle

Even if the CPP claiming process is revamped through more careful consideration of participant outcomes and the adoption of recommendations provided throughout this series, the fundamental question of governance remains: Who is responsible for identifying the indirect consequences of conflicting goals and enforcing process improvements, now and in the future? Who defines “success” in benefit administration and communication and who evaluates performance?

While CPP Investments has an independent, highly qualified Board of Directors to guide and oversee its operations with a clear mandate for investment excellence, where is the oversight to uphold the quality and effectiveness of participant communications?

That’s why it’s necessary to enhance governance and introduce a clear mandate to prioritize participant outcomes through robust, well-designed communications and services. This could be achieved through the formation of a new entity tasked with

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<sup>11</sup> ESDC’s internal evaluation reported that in-person conversations are generally the preference for more vulnerable participants – including those with lower levels of income and education, immigrants, persons with disabilities and Indigenous individuals (ibid).

oversight of CPP’s administrative policies and processes, with the ultimate goal of delivering the best possible participant outcomes. This new entity would ensure participants have the support and information they need. **It’s not about giving financial advice, but about having a greater stake in ensuring the process is focused on the participants.**

Note that introducing a broader mandate for any of the current parties involved in CPP administration may bring its own challenges. For example, adopting interventions that support better outcomes but do not improve the efficiency of service delivery would be challenging in the context of Service Canada’s current role as a government benefit administrator. Even when problems have been identified, as established by the ESDC internal evaluation, it’s very difficult to overcome the “status quo bias” that often obstructs process improvements [see the introduction of this paper series, MacDonald (2024a)].

Along with the potential for competing priorities and the natural barriers to progress within large organizations, there are other concerns relating to Service Canada’s current role as the party responsible for prioritizing CPP participant outcomes. The government of Canada and the participating provinces should consider whether the current roles and responsibilities of Service Canada are sufficiently distinct from its role as administrators of federal government benefit plans. After all, CPP benefits are not federal government benefits; they are pensions earned through employer and employee contributions, just like other workplace benefits. This distinction may not be broadly

understood by the public, since employer and employee contributions are included in employer remittances to the “Canada Revenue Agency” and benefits are paid by “Canada,” not the “Canada Pension Plan”.<sup>12</sup>

Fleshing out the exact governance and administrative structures that would best support CPP participants is outside the scope of this paper. Nonetheless, large Canadian registered pension plans could serve as a guide. At a minimum, the questions below – inspired by their governance structures and administrative practices – could help address some important gaps:

- Should CPP administration services be governed by a third-party administration agreement similar to the agreements used by private sector sponsors of workplace pension plans?
- Should the CPP Act or the agreement with the provinces impose duties similar to those imposed by pension benefit standards legislation with respect to disclosures and communication?
- Do communications to the general public appropriately distinguish the “pension plan” nature of CPP from government benefit plans like OAS?
- Are the interests of the contributing employers and employees fairly represented in the governance structure?

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<sup>12</sup> Conflating CPP contributions and pensions with taxes and government support payments may also be contributing to a lack of trust in the CPP program. According to ESDC’s online poll on CPP awareness, approximately a third of Canadians said concern that CPP would run out of money was a main factor in their claiming decision (ESDC, 2019). Step #3 discussed the lack of confidence in the CPP/QPP programs (MacDonald & Chandler, 2024a).

Finally, we recommend that both the mandate to prioritize participant outcomes and the governance structure put in place to oversee that mandate be enacted through legislation, rather than simply being implemented through policy changes.

This would extend a similar level of protection to CPP participants as the federal and provincial pension benefit standards already provide to members of other workplace pension plans.



# Reform #2: Introduce a “Pension-back” Death Benefit

As explained in the introduction paper of this series, the fundamental trade-off for the individual using savings as an income bridge while waiting for a higher delayed CPP/QPP retirement pension is between higher, secure lifetime income and short-term accessible wealth. Pre-retirees who are in a position to make this trade-off most often choose to hold on to short-term accessible wealth, despite their self-reported goal of wanting a more financially secure retirement. Even with perfectly framed communications, a gap remains that is challenging to overcome.

**The issue is that retirees have excessive exposure to longevity risk — yet, there are substantial mental blocks to managing it.**

Whether it’s their inability to imagine their future selves, their reluctance to anticipate negative future risks, their preferences for lump sums over pension income or any of the many reasons explored throughout this paper series and the academic literature dealing with “the annuity puzzle”<sup>13</sup>, retirees typically choose protection against one side of longevity risk (dying early) even though they are more exposed to – and, rightfully, more worried about – the other side (living longer and being unable to finance later years).

## The Root of the Problem

Although longevity risk has two sides, the lesser financial risk (i.e., the risk of dying

early) has taken centre stage in the CPP/QPP claiming decision. Known by behavioural economists as “loss aversion,” people are more concerned about what they might lose in the short term (immediate CPP/QPP income) than what they might gain in the long term (higher income from CPP/QPP over their lifetime). This short-term fear underlies and drives the prevalent faulty narratives and practices identified in Step #3 – especially the “break-even” approach (MacDonald & Chandler, 2024a).

The disconnect between retirees wanting long-term income security and their reluctance to choose it over having the money today is pervasive throughout the pension and annuity world.<sup>14</sup> As Anna Rappaport concluded, after overseeing decades of surveys and focus groups on post-retirement financial risks for the Society of Actuaries: “While people repeatedly say when asked that they want guaranteed income, when given a choice, they usually choose lump sums.” (Rappaport, 2008, p. 8).

Per ESDC’s online poll on CPP awareness, more than 7 out of 10 respondents said a main factor in their claiming decision was, “I was concerned that if I do not live a long life, I would not recoup my contributions” (ESDC, 2019). In a U.S. focus group study, outside of liquidity constraints, concern about not living long enough to collect sufficient benefits was

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<sup>13</sup> The “annuity puzzle” refers to the paradox that, while economic theory suggests that annuities should make up a significant portion of the optimal retirement income portfolio, the actual rate of voluntary annuitization in the private market is very low. The introduction paper of this series, MacDonald (2024a), reviewed relevant literature and findings.

<sup>14</sup> As explained in the introduction paper, decades of surveys and focus groups have consistently found that, when it comes to retirement finances, people value income security (i.e., steady, safe lifetime income) over high returns and access or control over their money, in Canada (Baldwin, 2017) and in the U.S. (Society of Actuaries, 2021; Retirement Research Center, 2022).

the most prominent reason for early claiming behaviour. “The narrative regarding longevity was remarkably constant across participants and groups: we cannot know how long we will live, so we may as well enjoy our Social Security retirement entitlement, from as soon as we can access it.” (Rabinovich & Samek, 2018, p.20)

Thought leaders who grapple with understanding why retirees’ choices diverge from their stated preferences (i.e., access to short-term wealth versus secure lifetime income) have come to the same conclusion: it’s less about lost income than about perceived fairness. For example, in the U.K., where pensions were once mandated through the purchase of an annuity, Blake & Boardman (2013) reported that commentators “frequently talk about annuities being ‘legalized theft’” (p.103), since the savings would be lost in the event of an early death.

Actuary Brnic Van Wyk, the lead behind the award-winning Lifetime Pension solution at *Australian Retirement Trust* (one of the world’s largest DC pension funds), talked “about a woman they interviewed as part of the designing phase of their lifetime pension product. There seemed to be inconsistency in her answers. The woman ranked bequest motives (leaving money for her children) very low, but was not willing to pool her individual longevity. When asked about it, she replied that if she would die ‘early’ she wanted her children

to have the money. Brnic found it difficult to reconcile the two statements. In the conversation that followed, she said that **this was not a question about bequest - but fairness**. If she would die early, she wanted the kids to have the money rather than the pension fund provider” (emphasis added; Lundbergh, 2021).

Literature that aims to unravel the “annuity puzzle” has increasingly pointed to the concept of fairness. For example, Shu et al. (2018) examined the role of “perceived fairness” in a retiree’s decision to choose lifetime income over savings through the purchase of an annuity. It found that the “strongest individual differences predictive of liking of annuities are the respondent’s perception of product fairness” (p. 1).

Addressing this concern is difficult because it is valid. In the context of the CPP/QPP claiming decision, early death may result in forfeited CPP/QPP payments relative to what one would have received if claiming earlier. Indeed, a fraction of those who defer CPP/QPP will die before the payments “break even.”<sup>15</sup> This is the downside present in all insurance and risk-pooling arrangements. Adopting the interventions proposed throughout this series can help address the fear of dying early and make the case for long-term financial security more salient to the retiree. However, rather than attempting to change or overcome inherent human biases, the most effective policy solutions will align with how people

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<sup>15</sup> For retirees with savings looking to maximize lifetime income, delaying CPP/QPP benefits is a financially advantageous investment strategy; however, there is always the possibility that claiming early would have been a better decision. For example, MacDonald et al. (2020) found approximately 4 out of 5 Canadians with RRSPs or registered retirement income funds (RRIFs) would get more lifetime income from deliberately using a portion of those savings in early retirement as a bridge to delay starting CPP/QPP benefits rather than stretching out their RRSP/RRIF withdrawals over the span of their full retirement. In other words, 4 out of 5 would end up with more money in the long term, as well as protection against inflation and longevity risk. So, while drawing on personal savings in early retirement as an income bridge to a higher delayed CPP/QPP benefit is financially advantageous in terms of retirement income security – offering higher expected returns and better protection against financial risk than holding on to RRSP/ RRIF savings – there is still a possibility of doing better in the short term. The remaining 1 out of 5 achieved more money by claiming benefits early, owing to their relatively early death.

think, behave and make decisions. This is why, based on the accumulated evidence, we need to go beyond boosts and nudges to implement a more direct solution.

## The Proposed Solution

For CPP/QPP participants to seriously consider delaying benefits, they need assurance that they will not get less than the early retirement benefit they are effectively “giving up” – even if they die prematurely. Therefore, a pension-back death benefit that delivers the

forfeited early retirement benefits should be established for participants who delay claiming CPP/QPP benefits past age 60.

This death benefit would make up the difference between the cumulative amount the participant *actually* received and what they *would have* received had they claimed at age 60. Note that the death benefit is *not* the entire value of the CPP/QPP benefit; it is only the lost income from delaying benefits (see *Box A* for an example).

### Box A: How the “Pension-back” Death Benefit Works

The “pension-back” death benefit depends on the claiming age and the age at death. Consider a retired 60-year-old with a basic CPP benefit of \$1,000 per month starting at age 65. Based on the age adjustment factors alone and assuming that wage growth underlying the YMPE matches inflation, they would receive \$640 monthly at age 60 (a 36% reduction from the age 65 basic benefit amount). The death benefit for selected combinations of claiming age and age at death would be the following.

If the participant:

- Dies at 63 before claiming: \$23,040 (forfeited CPP benefit of \$640 per month for three years);
- Dies at 65 before claiming: \$38,400 (forfeited CPP benefit of \$640 per month for five years);
- Dies at 67 after claiming at age 65: \$29,760 (forfeited CPP benefit of \$640 per month for seven years less actual CPP benefit of \$1,000 per month for two years); or
- Dies at age 74 after claiming at age 65: \$0 (forfeited CPP benefit of \$640 per month for 14 years from age 60 to 74 totals \$107,520, which is less than the actual benefit of \$1,000 per month for nine years from age 65 to 74 that totals \$108,000).

## How Will We Pay for It?

The widespread focus on dying prematurely and losing money is excessive in the CPP/QPP claiming decision, given the level of risk and the financial repercussions. Early death is not the norm, but a rare exception, among Canadians in their sixties [see Step #2, MacDonald et al. (2024a)].

**Fortunately, the weakness of the early death “problem” for participants is the strength of the solution. Since most CPP/QPP pensioners are expected to die after the death benefit has expired, the cost would be relatively small.**

To fund this relatively low-cost benefit – rather than increasing minimum contribution requirements (which would trigger a requirement to pre-fund the benefit improvement) or reducing the basic amount of benefit payable at age 65 – small changes could be made to the age adjustment factors. In determining the schedule of new age adjustment factors, the following objectives are important:

1. **Keeping the age 65 benefit constant.** Maintaining the basic pension amount (as defined in the current legislation) is necessary to avoid triggering a complex and protracted approval and implementation process.
2. **Keeping the age 60 benefit constant.** It’s important that the age 60 pension amount not be reduced, as this would impact already financially vulnerable retirees who claim benefits at age 60 out of necessity and would not gain from the additional death benefit.<sup>16</sup>

3. **Distributing costs fairly.** The death benefit should be financed by distributing the cost reasonably equitably across the claimants who can benefit from it. This means approaches such as changing only the post-65 age adjustment factors are less desirable since they place the full cost on those who defer past age 65.
4. **Improving the framing of the decision for greater transparency.** As discussed in Step 4, the current framing of the age adjustment factors can have a negative impact. Modifying the age adjustment factors is an opportunity to reframe how they are presented to claimants, empowering them to make informed decisions that better suit their needs. (See *Box B* for further discussion.)

*Table 1* illustrates a possible revised age adjustment schedule that could meet all of the objectives above, as well as the impact on the level of benefits at different claiming ages. Specifically:

- **Column (1)** shows the current benefits as a proportion of the age 65 basic pension amount, as the age adjustment factors are defined in current legislation (from a pension that is 64% of the age 65 benefits if claiming at age 60 to a pension that is 142% of the age 65 benefit if claiming at age 70);
- **Column (2)** shows the year-over-year benefit increase if delaying an additional year, attributable to the current adjustment factors (the annual “benefit growth rate”);

<sup>16</sup> See the introduction of this paper series, as well as Step #4, for a full discussion of how CPP/QPP can better serve this vulnerable population (MacDonald, 2024a; MacDonald & Chandler, 2024b)

- **Column (3)** shows a possible alternative set of age adjustment factors expressed under the current framing as a proportion of the age 65 basic pension amounts;
- **Column (4)** illustrates the simplicity of the corresponding benefit growth rates; and
- **Column (5)** shows the percentage change in the annual benefit entitlements of new claimants at each age due to the changes to the age adjustment factors.<sup>17</sup>

*Table 1* shows that the retirement benefits of those claiming at ages 60 and 65 are not affected, meeting objectives #1 and #2 above. Objective #3 is also met because the cost of the death benefit increases with the claiming age, and this is reflected in the illustrative adjustment factors relatively fairly.

Note that the impact on the pension benefits shown in Column (5) is modest. For example, based on the current actuarial adjustment factors alone, someone who waits to claim CPP benefits at age 70 instead of age 60 can

**Table 1: Impact of Illustrative Alternative Age Adjustment Factors on Benefits, By Claiming Age**

Claiming Age	Pension Levels as a Proportion of the Age 65 Basic Pension Amount & Annual Benefit Increases				Impact of Proposed Changes on Benefit Levels
	(1) Current Age Adjustment Factors	(2) One-year benefit increases	(3) Alternative Age Adjustment Factors	(4) One-year benefit increases	(5) % Difference [(3) - (1)]/(1)
60	<b>64.00%</b>		<b>64.00%</b>		0.00%
61	71.20%	11.250%	69.98%	9.337%	-1.72%
62	78.40%	10.112%	76.51%	9.337%	-2.41%
63	85.60%	9.184%	83.65%	9.337%	-2.27%
64	92.80%	8.411%	91.46%	9.337%	-1.44%
65	<b>100.00%</b>	7.759%	<b>100.00%</b>	9.337%	0.00%
66	108.40%	8.400%	106.50%	6.500%	-1.75%
67	116.80%	7.749%	113.43%	6.500%	-2.89%
68	125.20%	7.192%	120.80%	6.500%	-3.51%
69	133.60%	6.709%	128.65%	6.500%	-3.70%
70	<b>142.00%</b>	6.287%	<b>137.01%</b>	6.500%	-3.51%

<sup>17</sup> The alternative age adjustment factors in Column (3) are based on a simplified costing of the pension-back death benefit. There is no death benefit if claiming at age 60, and there is also no change to the retirement benefit at ages 60 and 65. The death benefit adds approximately 1% to the value of the pension at age 65 and 3% to the value of the pension at age 70. These cost estimates were calculated using a real annual discount rate of 3.9% (consistent with the 31st actuarial report on CPP) and a logit mortality table with a life expectancy at age 65 of 22 years. A technical supplement providing additional details of this funding illustration for the pension-back death benefit is available from the authors.

increase their monthly benefit payments to 222% of the age 60 amount (142%/64%), more than doubling their monthly retirement benefit. In this illustration, introducing the death benefit and changing the age adjustment factors to finance it would mean changing the monthly payments starting at age 70 to 214% of the age 60 amount (137%/64%) – **a modest 3.5% decrease in the age 70 benefit relative to current provisions and still well more than double the age 60 pension amount.**

The alternative adjustment factors presented in *Table 1* were derived from objectives #1- #3 above and the requirement that the one-year benefit growth rates be constant between age

60 and 65 and between age 65 and 70. These rates are shown in column 4. To the extent that participants understand this framing better, the illustrative adjustments also meet objective #4.

Note that the 9.337% one-year benefit growth rate from age 60 to 65 is predetermined if the desire is to maintain the age 60 and 65 benefit levels as currently legislated. However, the illustrative 6.5% benefit growth rate from age 65 to 70 can be adjusted to balance the age adjustments against the projected costs of the death benefit. A more detailed costing by the Office of the Chief Actuary would yield more precise adjustment factors.

## Box B: Research Recap: Meeting the Mindset of Retirees When Explaining Age-Related Adjustments

CPP/QPP currently presents the age adjustment factors using age 65 as the reference, with reductions in benefits before age 65 and increases after age 65. As discussed in Step #4, MacDonald & Chandler (2024b), this approach likely stems from the fact that CPP/QPP benefits originally could only be started at age 65. When the early claiming feature was adopted in the mid-1980s, the basic benefit continued to be expressed in terms of payments starting at age 65, and this became the reference point for all other claiming ages.

However, from a participant's perspective, this framing is completely arbitrary. There are reductions for every month CPP/QPP benefits are claimed before age 70 for CPP (and age 72 for QPP). Evidence shows the existing framing has negative influences on claiming behaviour (MacDonald & Chandler, 2024b).

This paper series – particularly Steps #1 and #4 (MacDonald et al., 2024a; MacDonald & Chandler, 2024b) – provided evidence for why people understand and respond more appropriately to having the age adjustment factors explained as a one-year-at-a-time “benefit growth rate.” People move into retirement with an investment mindset, having been long conditioned to evaluate their retirement account balances in terms of year-over-year growth (Brown et al., 2008). Rather than attempting to communicate the value of increased pension benefits using age 65 as a reference point, Step #4 explained why the age adjustment should be framed as a “bite-sized” annual growth in benefits.

Not only is this reframing supported by research, but it was also the advice independently given by experts on this topic. After 20 years serving as Canada's chief actuary, Jean-Claude Ménard concluded that the most effective and understandable approach to communicate the financial opportunity that delaying CPP/QPP benefits represents is to focus on potential annual benefit growth rather than attempting to make a broader appeal to long-term financial security.

## Why We Need a Pension-Back Death Benefit

Introducing a “pension-back” death benefit is a cheap, equitable and effective solution that policymakers and other stakeholders should rally behind to improve the financial security of Canada’s ageing population and strengthen the retirement income system for the future. Not only will it address the issue of perceived fairness for retirees, but it will also make the entire CPP/QPP system more equitable and less riddled with problematic narratives and conflicts of interest. This will enable more informed CPP/QPP claiming decisions.

The need to include a death benefit when people are given a choice between short-term payments and a lifetime income has been

long understood in the private pension and annuity world. For example, many Canadian workplace pension plans offer retiring plan members a range of actuarially reduced optional forms of pension – a smaller monthly pension in exchange for a 5-, 10- or 15-year guarantee (often in combination with a range of options for a surviving spouse’s benefit). Annuities sold by insurance companies almost always include a 10-year guarantee or an explicit return-of-premium rider. In fact, Milevsky and Salisbury (2022) reported that, in 2021, only 10.6% of annuity price quotes in the U.S. were attributed to life-only annuities, without any death benefit features.

As financial research intersects with psychology, academics are also increasingly investigating and supporting the role of death benefit guarantees (see *Box C*).

### Box C: Annuities with Money-Back Guarantees

In the U.K., based on evidence from psychology and behavioural economics, Blake & Boardman (2013) proposed adopting “money-back” annuities as part of decumulation planning – known in Canada as cash refund annuities. On death, any excess of the original purchase price over the gross annuity payments already received is returned to the annuitant’s estate, net of any tax.

Blake & Boardman (2013) listed the advantages of *money-back annuities* (p.107):

- They remove the single biggest consumer objection to annuities: ‘If I die soon after I retire, the annuity provider will keep my fund.’
- The ‘live or die’ guarantee of getting your money back provides a simple underpin.
- They are very easy to explain and for consumers to understand.
- A lump-sum repayment rather than the continuation of current income for a guaranteed period of 5 or 10 years is more easy for people to understand and due to hyperbolic discounting is more valued.

Hallstein et al. (2024) presented analytical evidence for why individuals predominantly purchase life annuities with cash refund death benefits. Their work endorses the importance of including a cash refund for retirees. Otherwise, “an excessive fear of not recouping annuity premiums can jeopardize their standard of living during retirement if this fear leads them to avoid annuities” (ibid, p. 31).

The case for guarantees in retirement income solutions was succinctly made by Brnic Van Wyk of the Australian Retirement Trust. Following years of research and testing leading up to the launch of their innovative Lifetime Pension product, he observed:

**“The introduction of a death benefit in our Lifetime Pension is the only inefficient feature of the product, but without that, nobody would buy it. People don’t like a one-way bet on their life. Including a death benefit in a lifetime income stream creates perceived fairness for participants, i.e. you always get your money back!”**

(B. Van Wyk, personal communication, October 25, 2024).

The “pension-back” death benefit proposed here is novel in relation to the early pension claiming decision. Importantly, it does not include the entire value of the CPP/QPP pension benefit, only the monthly age 60 retirement pension that the contributor implicitly lost when they deferred claiming benefits. As such, it is much smaller than the cash refund discussed in *Box C* and adopted by the Australian Retirement Trust. Nonetheless, the same lessons apply: when people have a choice, the perception of an initially unattractive one-way bet on longevity can be improved by adding a death benefit that ensures they get at least as much money as they think is fair, and potentially, much more.

From the perspective of individuals who can afford to delay, it’s a win-win solution. More specifically:

- In the case of the money-back guarantee, the return of the difference between the purchase price of the annuity and the payments received is seen as “fair” to the individual and their beneficiaries, who are receiving the same money in their pocket regardless of the decision to annuitize or not, and potentially much more if they annuitize and live longer than expected.
- In the case of the CPP/QPP claiming decision, the same principles of “fairness” would apply. If participants delay, they will still receive their “fair share” (i.e., the payments they could have received had they claimed at age 60) even if they die early, with the potential to receive much more over their lifetime.

Although this type of “money-back” death benefit is a new idea for CPP/QPP, it’s a well-established benefit design feature in the annuity world. It makes the prospect of delaying benefit claiming “fair” from the individual’s perspective — and, at the end of the day, their opinion is what drives claiming behaviour.

## Enhancing Pension Equity

Including a death benefit in a pension plan not only solves the public perception of being “fair”, but it can also enhance equity. Death benefits improve the value for those who die early. This is important in terms of equity in a mandated program like CPP/QPP, since lower life expectancy is associated with financial vulnerability (Bushnik et al., 2020).

The following are some of the equity considerations:

- Lower life expectancy means receiving CPP/QPP benefits over a shorter period. Milligan and Schirle (2021) measured the significant differential in life expectancy among CPP recipients across the earnings distribution, with the highest 5% of male earners living more than eight years longer than those in the bottom 5%;
- The relative pain of the mandatory CPP/QPP contribution and deferring the claiming age is often higher for low-income workers than for high-earning workers;
- Tax treatment of CPP/QPP contributions carries a greater advantage for high-earners than for low-earners; and
- Low-income retirees will likely receive a partial GIS benefit after age 65, which carries an effective tax rate of 50% or more on each dollar of CPP/QPP income they receive due to the income testing underlying the GIS calculation. Most CPP/QPP beneficiaries with higher earnings will pay lower effective taxes on their CPP/QPP pensions than this.

Death benefits help reduce the equity gaps between high-income and low-income groups, fostering greater fairness that paves the way for further reforms (see *Box D* for details).

## Box D: Raising the Maximum Benefit Age

The flexibility and availability of benefits at earlier ages in CPP/QPP play a vital role for older adults with low income. The authors of this paper series do not endorse raising the CPP/QPP minimum benefit age from 60, since doing so would create financial hardship for vulnerable Canadians who are dependent on claiming CPP/QPP benefits early. Empirical evidence has demonstrated the historical importance of the early CPP/QPP claiming option for the financial well-being of vulnerable older adults (Staubli & Zhao, 2024).

However, there may be some merit to extending the allowed uptake age beyond 70. As recommended by the Canadian Institute of Actuaries (CIA) and others, moving to age 72 like QPP (Retraite Québec, 2023) – or even age 75, with further age-based financial incentives – may be beneficial (Canadian Institute of Actuaries [CIA], 2019; Genest-Gregoire et al., 2018). It aligns with the growing proportion of Canadians staying in the workforce past age 70, which has tripled over the past two decades (Statistics Canada, 2024b); offers more flexibility of choice; and gives pre-retirees and retirees who have adequate tax-deferred savings and inadequate (or non-existent) workplace pensions the opportunity to shift savings toward their retirement income foundation. Finally, since increasing the maximum age would shift the middle of the range of available claiming ages, and people tend to make choices based on the “middle” option presented to them (Valenzuela and Raghurir, 2009), such a change might influence some individuals to select the new (higher) middle option.

With that being said, it’s possible that only the most affluent and long-lived individuals will be willing and able to choose the later ages, creating an inequitably more expensive CPP/QPP system. Including the death benefit mitigates this risk and addresses the equity issue. The death benefit would increase the uptake of postponed retirement by participants with ordinary economic status and longevity who are motivated to defer by a need for a larger income foundation, lessening the correlation between claiming ages and longevity.

## The Potential Downside

Despite all the advantages, it could be argued that financing the pension-back death benefit by changing the age adjustment factors will disrupt and dilute the financial incentives currently offered. Another objection to the death benefit and its proposed financing relates to “value for money”: some individuals who see no value in the pension-back death benefit would still be forced to pay for it through smaller pensions starting at ages 61-64 or 66-70.<sup>18</sup>

However, these financial incentives have not motivated people’s claiming behaviour to date, and evidence suggests that it’s very unlikely that adjusting them modestly will do so either. The vast majority of people are already foregoing the financially advantageous opportunity to enhance their retirement income security by delaying CPP/QPP benefits.<sup>19</sup> And, as discussed in the introduction paper of this series (MacDonald, 2024a), financial incentives in the form of increased pension alone have a minimal effect on claiming behaviour. Evidence in the U.S., Canada, Switzerland and the U.K. consistently finds people aren’t swayed by the relative financial advantages of delaying claiming benefits (Shoven & Slavov, 2012; Glenzer et al., 2023, Lalive et al., 2023 and Gorry et al., 2022).

Overall, adopting the pension-back death benefit will likely result in minimal disruption to a financial incentive that currently isn’t driving behaviour. But it could have the significant impact of shifting claiming behaviour toward choosing ages that address individual retirement income security needs, rather than making decisions based on fear of unfair outcomes.

## Eradicating False and Damaging Narratives

Step #3 reviewed some of the conventional narratives for why people claim benefits early – including the problematic break-even approach, a widely used mental shortcut that has emerged in financial guidance for the CPP/QPP claiming decision. With statements like, “You’ll be better off taking CPP/QPP benefits at age 60 if you die before your break-even age,” this approach frames the decision as a bet on when the retiree expects to die, catering to short-sighted, fear-based natural psychological biases and discouraging retirees from supporting their long-term financial well-being (MacDonald et al., 2024a).

The proposed pension-back death benefit renders the break-even calculation moot since the death benefit pays the difference, effectively eradicating a damaging practice that fosters a gambler’s mentality and distracts from sound financial planning. It also helps alleviate inheritance anxieties.

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<sup>18</sup> An alternative approach to financing the death benefit would be to permit contributors to choose between receiving the death benefit (along with a reduced monthly pension) or receiving no death benefit (with the existing pension formula and age adjustment factors). However, making the pension-back benefit an option has major drawbacks. Individuals would have to declare their option by age 60 to receive maximum value from the pension-back benefit, even though they would not be choosing to start their pension until years later. The paper series has made it clear that there is already enough uninformed decision-making – adding another choice would simply add to the complexity.

<sup>19</sup> The pricing of CPP/QPP delay incentives is much more advantageous than what is available in the retail annuity market. For example, MacDonald (2020) explained that the “cost” of purchasing higher CPP/QPP pension benefits is the forfeited CPP/QPP payments during the deferral period. If Canadians were to use the equivalent of those forfeited CPP/QPP payments to buy such a pension in the retail marketplace, they would receive half of the income. In other words, buying the same level of secure pension income in the retail market has twice the cost.

A common concern behind early claiming of CPP/QPP benefits is the prospect of dying with reduced savings to leave to a spouse or another dependent. As explained in Carrick (2020):

A big reason why people don't want to delay relates to the CPP survivor's pension. One reader expressed the problem as follows:

*"What happens if you drain some money from a registered retirement savings plan or tax-free savings account to pay living costs while you delay CPP and then you die unexpectedly?"*

While MacDonald (2020) argued that there are more efficient financial strategies to cover this short-term risk (such as buying life insurance) rather than forfeiting the excellent financial opportunity offered by the CPP/QPP delay, the proposed death benefit alleviates this concern.

## Sidestepping Important Obstacles

The most obvious response to excessive, unjustified early claiming is to raise the minimum benefit age. However, this option would undoubtedly be met with overwhelming resistance. The recent large-scale protests in France are a powerful example of public response to raising the retirement age.<sup>20</sup> An attempt in the 2012 Canadian federal budget to gradually move OAS eligibility age from age 65 to 67 proved politically unsustainable and was reversed after a change in government.<sup>21</sup>

<sup>20</sup> For background, see Lissek (2023).

<sup>21</sup> For discussion, see Allentuck (2016).

<sup>22</sup> See Grammond (2023) for an article summarizing the proposed QPP reforms.

More recently, the Quebec government explored the possibility of increasing the QPP minimum benefit age from 60 to 62 at the same time as the maximum benefit age was increased from age 70 to 72 (Retraite Québec, 2023). Although the proposal was intended to improve long-term retirement financial security and labour force participation, not to reduce costs, even the experts would not support it, and the minimum benefit age remains at 60.<sup>22</sup>

A major advantage of this proposed reform is that it will not trigger the prolonged phase-in period required for a CPP benefit improvement, as the minimum required contributions would not be changed. Since 1995, any benefit improvements have required full funding, effectively requiring a 40-year phase-in period. While raising contribution rates to cover the cost of this additional feature would be a major issue, modifying the adjustment factors so the cost is self-financed by each cohort of pensioners who will be eligible for the benefit avoids the most severe barriers to adoption.

## The Time Is Now

When it comes to reforms to CPP/QPP retirement benefits in Canada, the timing couldn't be better. Not only can this change be made before the peak of baby boomer retirements, but the Chief Actuary of Canada also reviews the actuarial adjustment factors every nine years and resets them if necessary.

This review is set to take place after the triennial report as at December 31, 2024 – meaning, it’s an opportune time to make a change.

This small but important change has the potential to dramatically improve CPP/QPP claiming behaviour and outcomes, just in time to help support this last large group of retiring baby boomers. Shifting the views and choices of some pre-retirees can have a statistically and economically significant contagious effect on the retirement financial decisions of other pre-retirees (Bursztyn et al., 2014). “These so-called peer or herding effects can help amplify a small change in behavior into a more sweeping change” (Baily & Harris, 2019, p. 13).

In other words, influencing the way CPP/QPP claiming choices are made by a sufficiently large number of individuals can have much greater impacts across the greater Canadian population.



# Conclusion

This large-scale 7-step paper series describes a six-year program of study that extended earlier findings from MacDonald (2020) and MacDonald et al. (2020), consolidated hundreds of academic publications from various disciplines around the globe and synthesized relevant insights from hundreds of thought leaders with various backgrounds, including researchers, policymakers and practitioners. Based on this solid foundation of academic and practical evidence, we urge policymakers to redefine the federal government's formal responsibilities to explicitly prioritize CPP participant outcomes and adopt a modest "pension-back" death benefit feature in CPP/QPP.

These evidence-based solutions can realistically be adopted with minimal financial impact. And, most importantly, they can meaningfully improve the lives of millions of Canadian retirees, their families and the broader Canadian society – not just today, but for decades to come.



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