

The Road to Reform of the Canada and Quebec Pension Plans

Presentation to the HEC Conference
“Future Well Being of the Elderly”

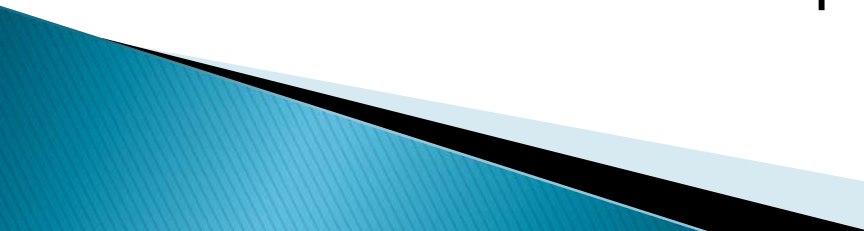
By

Bob Baldwin

Montreal

December 6th, 2016

Map of the Presentation

- ▶ My fellow panelists will assess the impact of proposals to reform the Canada and Quebec Pension Plans
 - ▶ I will try to set the stage by
 - offering some brief descriptive comments on the C/QPP
 - Explaining what led to reform discussions
 - Noting the proposed and accepted reforms to the CPP
 - Comparing the reform with the diagnosis of retirement income problems
- 

Canada and Quebec Pension Plans: What are they?

- ▶ Canada's pillar 2
 - Mandatory earnings related plans
 - Quebec and rest of Canada
 - Portable: almost identical benefits, small difference in contributions
- ▶ Modest benefits by OECD standards
 - Benefit rate 25% on earnings to just above AWS
 - Sits on "universal" flat rate benefit
 - Policy choice to leave room for pillar 3
- ▶ CPP decision-making
 - Canada + 2/3 provinces with 2/3 population
- ▶ Contentious
 - Expand: labour + partners
 - Limit: insurance industry + partners

Path to C/QPP reform

- ▶ Financing problems of DB plans
 - Formal/structured inquiries in Alberta & BC, NS and Ontario
- ▶ Inquiries take up issue of declining participation in workplace plans; report in fall of 2008
 - Alberta & BC + NS recommend provincial plans
 - Ontario: look at CPP
- ▶ June 2009: federal and provincial finance ministers agree to address retirement income adequacy
- ▶ June 2010: most agree to a modest expansion of CPP: Quebec and Alberta balk
- ▶ 2013: discussions halted
- ▶ December 2015: discussions resumed
- ▶ June 2016: agreement on modest expansion

Alternative Proposals

- ▶ PEI proposal
 - Increase benefit rate from 25 to 40%
 - Cover earnings from roughly 0.5 AWS to 1.75 AWS
- ▶ ORPP proposal
 - Increase benefit rate from 25 t 40%
 - Cover earnings from roughly 0 to 1.75 AWS
 - Exempt participants in workplace plans with comparable benefits
- ▶ D'Amours: longevity pension
 - 0.5% per year on existing earnings
 - Payable at age 75

CPP Changes Agreed to

- ▶ Benefit rate to increase from 25 to 33%
- ▶ Covered earnings to be increased by 14%
 - (from \$54,900 to \$62,600 in today's terms)
- ▶ Contributions to increase
 - (1+1 pp for increased benefit rate phased in from 2019 to 2023; 4+4 for newly covered earnings in 2024 and 2025)
- ▶ New benefits to be phased in over 40 years from start of contribution increases
- ▶ Contributions for very low earners to be offset
- ▶ New benefits will be accounted for separately
 - Slight differences in base and additional benefit rules
- ▶ Benefits to be “fully funded”


Diagnostic 1

- ▶ Comment on five micro analytic studies of the retirement income prospects of Canadians prepared between 2009 and 2015
- ▶ Headline conclusions vary dramatically
 - 17 versus 50% will experience a significant decline in their standard of living
- ▶ When focussed on young middle earners
 - 30 to 50% will experience a significant decline in their standard of living

Diagnostic 2

- ▶ Problem biggest for
 - Middle and upper middle earners
 - People without a workplace pension
 - Younger people
- ▶ Underlying problems
 - Declining participation in workplace pensions
 - Declining relative value of OAS
 - CPP rules and changing pattern of labour force attachment

Agreed Changes vs the Diagnostic

- ▶ Low level of covered earnings
 - Subject to big caveat below, diagnostic suggests no need to cover earnings up to 0.5 AWS (Quebec dissent)
 - ▶ Upper level of covered earnings
 - Earnings range of policy interest extends higher than 1.14 x existing YMPE
 - ▶ Benefit rate
 - Substantial need for income from sources other than pillar 1 and 2 still exists
 - ▶ Responsiveness to changing patterns of labour force attachment
 - ▶ Relationship to workplace pensions
 - Wrap around versus displace?
 - ▶ OAS foundation for CPP
- 

Problems Revealed by the Path to Reform

- ▶ Treating components of the retirement income system in isolation from each other
 - Note interactions between CPP and GIS+; and interactions with OAS
 - Need a holistic approach
- ▶ Little attention to demographic/labour market trends
 - Are chronological ages still useful markers of labour force attachment and criteria for retirement benefits?
 - Decelerating labour force growth, real wages impact and OAS