

# The Road to Reform of the Canada and Quebec Pension Plans

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

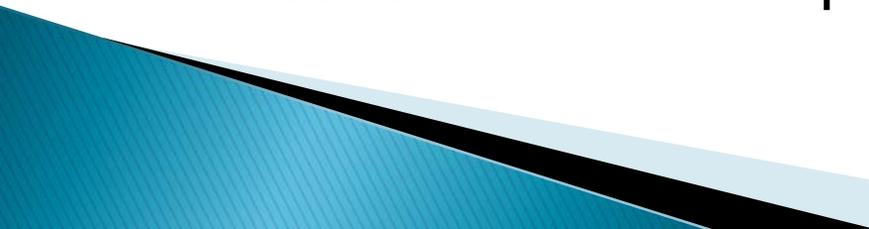
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# Map of the Presentation

- ▶ 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
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# 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
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# 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