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In Canada as in other countries, retirement pensions involve long-term commitments on the part of employers and governments. Canada's pension system has a number of outstanding qualities like the capacity to fight poverty effectively. However, many Canadians are concerned about the future of retirement security in our country. Considering trends like demographic aging, the 2008 financial crisis, and the decline in defined-benefit pensions, these concerns are legitimate. Pension reform is a difficult business because it involves complex rules and policy trade-offs and, in the case of the Canada Pension Plan (CPP), discussions between Ottawa and the provinces.

The role of the provinces in retirement security is only one of the several outstanding features of Canada's pension system. For instance, our pension system is based on the interaction between multiple layers of public and private schemes. As far as public pensions are concerned, Canada has a modest flat pension (Old Age Security: OAS) that works in tandem with CPP/QPP and, in the case of low-income people, GIS (Guaranteed Income Supplement). Regarding these public pension programmes, from a comparative perspective, it is clear that the Canadian system offers relatively modest replacement rates (for CPP, this rate is only 25 percent). Such modest replacement rates are related to our reliance on private pensions and personal savings, which are seen as complementary sources of retirement security for workers. This choice to rely extensively on private pensions and personal savings was made in the mid-1960s, when CPP and QPP were adopted. Interestingly, however, CPP and QPP were created precisely because experts

and policymakers came to the realization that, on their own, OAS and private pensions could not grant true economic security to most Canadian retirees. From this standpoint, CPP and QPP were designed largely to offset the shortcomings of private pensions.¹ As for GIS, it was created in 1967 as a temporary measure that was later made permanent in order to provide durable support to low-income, elderly Canadians. There is strong evidence that GIS, as combined with the other elements of our public pension system, is an effective program in the fight against elderly poverty, an area where Canada has done well compared to many other countries. In fact, concerning elderly poverty, Canada performs as well as social-democratic Sweden and much better than countries like the United Kingdom and the United States. For instance, using a standard definition of poverty, two American scholars recently showed that the rate of elderly poverty is much lower in Canada than in the United States.² We can attribute part of this success to GIS. However, despite the dramatic improvement compared to the situation prevailing forty years ago (according to the Luxemburg Income Study, the elderly poverty rate dropped from 36.9 percent in 1971 to 6.3 percent in 2004), elderly poverty in Canada increased between the mid-1990s and the mid-2000s.³ Raising GIS benefits could help reduce elderly poverty in Canada.

Although fighting poverty is important, modern retirement systems do more than that, as one of their primary goals is to replace income. This is true because, when workers retire, they typically want more than simply to avoid poverty; they seek to maintain the living standard they have achieved during their active life. Here, regarding our public pension system, CPP and QPP are especially crucial. Considering the decline of defined-benefit pensions and the slow erosion of private pension coverage in general (workforce participation declined from 46 to 38 percent between 1977 and 2008),⁴ CPP and QPP are more essential than ever. This is partly why many

experts and policymakers are promoting the idea of improving the economic protection offered by these earnings-related schemes. Yet, any attempt to improve the protection they offer should take into account fiscal, demographic, and economic challenges, particularly, the necessity to maintain the long-term fiscal soundness of both CPP and QPP.

Since the beginning of this presentation, I have mentioned CPP and QPP together, almost as if they formed one single program. Obviously, this is not the case, as QPP is a provincial program under the control of the Quebec government. Nevertheless, although distinct from one another, CPP and QPP are highly similar by design. For instance, these two programs have the same contribution and replacement rates. In fact, maintaining the “parallelism” between CPP and QPP has been a major objective since their creation, and this trend is likely to continue.⁵ Partly because of this, it is important to keep in mind that major CPP reform is impossible without the involvement of Quebec, so that the high level of policy coordination between CPP and QPP is maintained. Moreover, regarding CPP reform, all the provinces have a direct role to play, as any change to CPP must be approved by at least two thirds of the provinces representing at least two thirds of the Canadian population. Therefore, CPP reform is a complicated process not only because of the tricky nature of the policy issues and trade-offs at stake but because of the federal-provincial consultations necessary to achieve reform. But, as evidenced by the 1997 CPP reform,⁶ important changes to CPP involving potentially controversial issues like contribution increases are possible when federal and provincial policymakers agree that reform is necessary.

Recently, there has been quite a bit of talk about CPP/QPP reform so it is important to discuss the principles that could guide any future reform. First, considering the problems facing private pensions and the legitimate economic anxieties of Canadians, putting increased retirement security to the forefront of the CPP reform agenda is essential. CPP and QPP are

major tools to improve the economic security of retirees, and higher benefits would go a long way in improving the situation, especially when we deal with income maintenance. Second, it is important to keep in mind the long-term fiscal sustainability of both CPP and QPP. While CPP is fiscally sound for the predictable future, this is not the case of QPP, which should face real fiscal challenges starting in the 2040s, and perhaps even earlier.⁷ In Quebec, the discussion about the future of the QPP has been taking place for several years now, and it is essential to take this discussion into account as we think about CPP reform for the reasons stated above.

In order to improve the economic security of retirees, a raise in the CPP/QPP combined contribution rate (currently 9.9 percent of covered payroll) should be considered, as this would help increase the programs' replacement rate. Recently, some experts and organizations like the Canadian Labour Congress have promoted the idea of a massive increase in the replacement rate that would require major contribution hikes.⁸ Although this type of proposal should be examined, to reach a political consensus among federal parties and provinces, more modest increases in benefits and contribution rates could also be considered. Because a QPP contribution increase is already being discussed in Quebec,⁹ it might be possible to agree on a new, higher rate for both CPP and QPP that would lead to higher pension benefits for all Canadians while providing a solution to the long-term fiscal issues facing QPP. Other reform scenarios are obviously possible and, at this point, the important thing is probably to understand that incremental, seemingly modest changes to benefit structures and contribution rates could have a truly positive impact on our public pension system and the economic security of Canadians. Politically, increasing the CPP and QPP contribution rate is not an easy thing to do, but, as we witnessed more than a decade ago, it is possible for the federal government and the provinces to craft a reform if there is sufficient political leadership to put the policy process into motion.

Additionally, it has been suggested to raise the Yearly Maximum Pensionable Earnings (YMPE), now at 47,200 dollars. From an international perspective, the YMPE for the CPP and QPP is rather low. For instance, in the United States, the annual wage ceiling on Social Security contributions is well above 100,000 dollars, and, recently, Democrats including President Barack Obama have suggested increasing it further in order to address the fiscal challenges facing that program. In Canada, raising the YMPE would help boost the maximum pension (currently 934 dollars per month). Considering the obvious limits of private pension coverage, access to a higher maximum CPP/QPP pension would help more elderly people maintain their basic standard of living. As stated earlier, our public pension system does a fairly good job of fighting poverty, but it has clear limitations when we consider income maintenance for the middle class. If it is coupled with an increase in the replacement rate, raising the YMPE significantly above the average wage could go a long way in creating a better public pension system that would help Canadians prepare a more secure retirement.

Overall, it is a good thing to have a complex, multi-layered pension system in which a number of public and of private schemes complement one another. In the current Canadian context, however, we should seriously consider improving the public component of our pension system by increasing CPP and QPP benefits while further ameliorating the long-term fiscal standing of that component. I am not here to advocate a detailed reform proposal; instead, I simply want to stress the need to seriously consider significant reforms that could improve the economic security of the elderly in Canada.

Thank you very much for your attention.

Endnotes

¹ Kristina Babich and Daniel Béland. 2009. "Policy Change and the Politics of Ideas: The Emergence of the Canada/Quebec Pension Plans," *Canadian Review of Sociology*, 46(3): 253-271.

² These scholars define elderly poverty as the "percentage of population aged 65 or older with income less than 50 percent of adjusted national median disposable income for all persons." Based on this definition, the elderly poverty rate in the United States in 2000 was 24.7 percent, compared to only 7.8 percent in Canada (1998 data): Michael Wiseman and Martynas Yčas. 2008. "The Canadian Safety Net for the Elderly," *Social Security Bulletin*, 68(2): 53-67(54). On this issue see also Daniel Béland and John Myles. 2005. "Stasis amidst Change: Canadian Pension Reform in an Age of Retrenchment." In Giuliano Bonoli and Toshimitsu Shinkawa (eds), *Ageing and Pension Reform around the World*. Cheltenham: Edward Elgar, pp. 252-272.

³ For a recent overview from which I draw see the Conference Board website:

<http://www.conferenceboard.ca/hcp/details/society/elderly-poverty.aspx>

⁴ Bob Baldwin. 2010. "Workplace Pensions: Trouble in Pillar 3," Presentation to the "Older and Wiser" Conference, University of Saskatchewan (Johnson-Shoyama Graduate School of Public Policy), March 8.

⁵ On this issue and the relationship between CPP and QPP see Edward Tamagno. 2008. *A Tale of Two Pension Plans: The Differing Fortunes of the Canada and Quebec Pension Plans*. Ottawa: Caledon Institute of Social Policy.

⁶ Bruce Little. 2008. *Fixing the Future: How Canada's Usually Fractious Governments Worked Together to Rescue the Canada Pension Plan*. Toronto: University of Toronto Press.

⁷ Alexandre Laurin. 2009. *Débâcle à la Caisse: Que faire avec le Régime de rentes du Québec?* Toronto: CD Howe Institute.

⁸ For example: Jon Kesselman. 2009. "Who will pay to end the looming pension crisis?" *Globe and Mail*, December 18.

⁹ For instance: Régie des rentes du Québec. 2008. *Vers un Régime de rentes du Québec renforcé et plus équitable*. Québec: Régie des rentes du Québec.