Phase III Evaluation of Survivor Benefits and Other Features of Canada Pension Plan

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Evaluation of Survivor Benefits and Other Features of Canada Pension Plan

Final Report

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Executive Summary

A. Introduction

The Canada Pension Plan (CPP), introduced in 1966, was designed to provide pension income to retired and disabled workers, surviving spouses of deceased contributors and orphans. For the first time in Canada the plan provided a public, earnings-related retirement income, together with ancillary benefits, survivor benefits and disability benefits. Central to the survivor benefits are a Surviving Spouse's Pension, Orphan's Benefits, and a Death Benefit.

Virtually all workers in Canada, whether employees or self-employed, were required to contribute to the plan. Benefits have been indexed annually to offset the effect of inflation. Since 1989, the survivor benefit has stabilized at about 17% of total CPP

payments, with the bulk of these paid to women over the age of 65.

B. The Scope of This Report

This study is part of a larger effort which encompasses the review of retirement benefits and disability benefits under the CPP being conducted by Human Resources Development Canada (HRDC). This phase of the CPP evaluation is aimed at determining whether there is a continuing rationale for providing survivor benefits and for other features of the CPP, such as the dropout provisions and credit splitting. At present, the general dropout provision allows 15% of years with lowest earnings to be dropped out in calculating CPP benefits. The child rearing dropout permits parents to drop additional years for raising children up to 7 years of age. Credit splitting refers to the division of CPP pension credits between members of divorced or separated couples.

This report integrates qualitative and quantitative findings from a wide range of sources, including surveys of surviving spouses and of the general public, as well as from simulations using the CPP Actuarial Model, other micro-simulation models, analysis of administrative data, and opinion from experts in the field.

The report describes the historical development of CPP survivor benefits and other features of interest. Then the current program coverage and continuing rationale are examined. The report examines the extent to which objectives have been achieved and addresses the key issue of the significance of survivor benefits in relation to all other sources of income, including personal income and, where applicable, that of all members of the household. Impacts and effects of the survivor benefits and ancillary features are examined, along with an analysis of the economic effects of CPP contributions on employers and employees. The last chapter identifies issues that deserve further consideration.

C. The Rationale for Survivor Benefits Remains Despite Social Changes

Ninety percent of survivors are women; orphans benefits are paid mainly for children who have lost their fathers. Also, the general dropout provision is beneficial to those with erratic earnings, traditionally more characteristic of women. Credit splitting was intended to benefit women.

The mid-1960s model of the typical family pattern a male breadwinner and a non-working wife taking care of the children has changed, but the need for earnings replacement has not diminished. Some of the key changes that have occurred together with their impact on the rationale for various components of the CPP are summarized below:

Changes	*Impact on rationale / comments*
Dramatic increase in women's participation in labour force	Increase in women earning income and retirement credits in their own names might weaken the rationale for benefits based on dependency. On the other hand, two earner families rely on both incomes to meet current expenses and eventual retirement expenses. Loss of one earner still requires replacement of that income.
More "non standard work" patterns, especially among women	Does not change rationale for survivor benefits and other ancillary benefits may in fact strengthen it as employer provided benefits are less likely in part-time, self-employment, voluntary sector etc.
High divorce rates, more common-law relationships	Accommodated by recognition of common-law spouses and implementation of credit splitting.
Changing attitudes to age and sex discrimination	Overtly discriminatory practices (payment to widows only, cessation on remarriage) have been eliminated. Age distinction in retirement and insurance programs are still essential for efficient functioning of programs. Other remaining issues (age/family status distinctions for pre-retirement benefits, same sex spouses) are still under discussion.

Move away from "entitlement" based social security towards "income-tested" benefits (e.g. toward the Child Tax Credit and the proposed Seniors Benefit)	Need still exists for basic income replacement program erosion of life-time employment patterns makes CPP even more necessary, as a floor plan of social insurance.

We found strong support among experts, the public, and our own analysis of data for the rationale of continuing federally provided, post-retirement survivor benefits in their present form and by extension to pre-retirement survivors over 55. However, there was some disagreement among experts on survivor benefits for pre-retirement survivors.

The formula for pre-retirement survivor benefits includes a flat-rate component which is not related to the deceased contributor's earnings record. There is therefore an element of "income support" as well as income replacement. Interviewees as well as the expert panel found the rationale for this benefit design is less clear than in the case of the post-retirement benefits, where only the earnings-related component is present.

Insofar as orphan's benefits and the death benefit are concerned, the expert panel and key informants were less supportive of the rationale than in the case of spousal survivor benefits. However, there was little support for the elimination of these benefits, partly because of the relatively small savings that would result.

The continued rationale for the general dropout was supported, even enhanced in view of labour market instability. In spite of changed labour force participation of working mothers, evidence for continued need for the specific child rearing dropout provision was offered. Strong support was shown from experts for the rationale for continuation of credit splitting on marriage breakdown. On the other hand, assignment of pension benefits in the absence of marriage breakdown was questioned.

D. The Profile of Beneficiaries has Changed

The number of recipients of CPP survivor's pensions has increased rapidly over the last three decades, from less than 100,000 in the early 1970s to 735,345 in January 1996. In that month, 89% of the beneficiaries were women, and of the women almost three-quarters were over the age of 65. The age of new beneficiaries has steadily increased. There has also been a dramatic increase in female beneficiaries over 75 a 24 percentage point increase from 1984 to 1995.

A 1996 survey of beneficiaries showed that less than 10% of female survivors were remarried; 75% lived alone. In addition, only 18% of all female survivors had been employed (full-time or part-time) in 1995.

The total dollars expended for Surviving Spouse's Benefits in the month of January 1996 was $180.7 million, with an average benefit of $244.01. The maximum benefit in 1996 is $436.25 if the spouse is 65 or over. Younger female beneficiaries those of pre-retirement age represented only 28% of the number of beneficiaries, but represents 32% of the dollar value of the benefits to female survivors.

E. Survivor Benefits are Very Significant for Only a Minority of Women Survivors

For 80% of female survivors, the survivor benefit represents less than 20% of household income. However, multiple lines of evidence indicate that for low income women those with $10,000 in income or less survivor benefits represent a very significant proportion of total gross household income. Especially among lowest income women, the proportion of income represented by CPP survivor benefits has increased over time.

Survey data showed that female survivors who perceive their current income to be less than adequate are disproportionately numerous among women of pre-retirement age and those with little or no education.

F. Experts and the Public Differ Somewhat on Eligibility Rules for Survivor Benefits

The general public tends to be both restrictive and generous with respect to eligibility for benefits. Canadians think that survivors who remarry should not receive a benefit, but they would open up eligibility for younger pre-retirement survivors in addition to the disabled and those with children. Current beneficiaries tended to support the *status quo* with respect to whether survivor benefits should vary with the age of the surviving spouse and whether benefits should be related to the survivor's income. They also support the current rules with respect to Orphan's Benefits.

Experts and key informants think the current rules are, by and large, appropriate. Even on the more controversial pre-retirement eligibility rules, there is general acceptance of the income support aspects largely because the principle of income support for **families** overrides their dislike for a departure from the income replacement principle.

If the $3 billion of expenditure on Survivor Benefits were cut from the CPP/QPP, the net effect would mean a compensating increase of $1 billion in other income support programs. The manner in which the lower costs net out is complex, given that OAS, GIS and tax credits are all affected by the presence of a CPP survivor benefit as part of income.

G. Retention of Other Survivor Benefits, Dropout Provisions and Credit Splitting is Generally Well Supported

Experts and our key informants supported retaining the death benefit, orphans benefits as well as the general and child rearing

dropout provisions and credit splitting.

Regarding the death benefit, male and female beneficiaries differed in their perceptions of adequacy more males than females found the death benefit to be "less than adequate." The opinions of female survivors were consistent with the views of key informants and the expert panel namely, that the death benefit makes a reasonable contribution following the death of a spouse and, therefore, should not be dropped.

Many survivors find the current name insensitive and would like to see it changed. The Surviving Child's Benefit seems more appropriate. Regarding the Orphan's Benefit the public supported the status quo, but there was fairly strong support for extending Orphan's Benefit to at least 22 years of age, even if the child was not in school. On the general dropout provision, the public favoured extending it to cover other forms of family-related care-giving beyond the current rules, but there was no agreement on lengthening or shortening the number of years of general dropout permitted.

The experts and the public differ on the mandatory aspect of credit splitting: the public is more disposed to negotiation in the case of divorce and separation; the experts favour mandatory provisions. Simulation results using the CPP Actuarial Model showed that the **removal** of mandatory credit splitting on divorce would actually increase CPP costs because of the way credit splitting currently interacts with dropout provisions.

Credit splitting should transfer credits from men to women and from those with a less interrupted earnings record to those with a more interrupted one. Women also live longer than men, such that equal benefits transferred to women would be more costly. However, the effect is outweighed by its interaction with the splitting of the child rearing dropout which results in lower total costs to the CPP. This reduces the percentage of maximum CPP pension available to husbands after credit splitting. The result is some savings to the Plan.

H. Survivor Benefits Do Not Have a Major Impact on Labour Force Behaviour

Women's labour market behaviour is little affected by the death of a spouse and the receipt of a benefit. Most of the current beneficiaries were not in the labour force at the time of the death of a spouse and, for most, the situation did not change afterwards. Trend analysis showed that the number of weeks worked by women revealed a downward trend both before and after the start of benefits. This is reflected in annual average earnings.

We also found that employed survivors differed, but not significantly, from those with no employment income with respect to the proportion of income provided by survivor benefits. The issue has been raised as to whether employed survivors should receive lower benefits. We found little justification in the data for considering changes to the benefit structure to accommodate differences in income related to employment.

In future, it is not likely that significantly more widows will be employed at the time of the death of their spouse/partner. In part this is because the longevity of males is greater now than in the past and also because of a trend to earlier retirement. This makes it more likely that neither partner will be working at the time of the death of a spouse, and there is little reason to think that many will seek/find employment afterwards.

I. CPP Payroll Taxes currently Account for a Fifth of Employer Payroll Taxes

In comparing tax incentives that affect the labour market, a complete perspective requires information on other taxes borne by employers. Currently the CPP does not dominate the cost impacts on employers, since payroll taxes for CPP account for one-fifth of all employer payroll taxes. The employer cost impact has increased in the last decade, but historically the CPP payroll tax has been smaller than that of our major trading partners. On the other hand, the contribution of employers will rise significantly. According to draft legislation to amend the Canada Pension Plan tabled on February 14, 1997, contribution rates will rise over the next six years to 9.9% of contributory earnings and then remain steady. These contributions are split equally between employer and employees, so employer contributions will be slightly below 5% of contributory earnings. The self-employed pay the full amount.

J. No Major Unintended Impacts of CPP Were Found, But some Anomalies Exist

Evidence on the impacts of the program features we examined offered no major concerns for unintended consequences, although there were some anomalies:

- Simulations suggested that the interaction of survivor benefits with receipt of social assistance could result in perverse consequences: in certain ranges of income, female beneficiaries of survivor benefits who were also in receipt of social assistance could actually be worse off in terms of net disposable income than they would be without a Survivor's Pension and Orphan's Benefits. The results are suggestive, not definitive, and require follow-up to be certain of the prevalence.
- The introduction of flexible retirement has made the general dropout variable rather than fixed and may result in inequities between those who commence to receive their CPP early, compared to those who wait to age 65.
- The rationale for the child rearing dropout provision (CRDO) was to avoid penalizing contributors (mostly women) who left the work force or who had years of low earnings. The CRDO works best for those who have a strong attachment to the workforce during years when they are not caring for young children, and who drop out completely to care for children. This

model is less prevalent now than it was when the child rearing dropout provisions were devised.

- The CRDO does not have the effect of reproducing the benefit that the contributor would have received, had he/she not left the workforce. If this was the objective, then this objective is being met only imperfectly.

K. Comparison of CPP Costs to Private Insurance Not Conclusive

It is difficult to compare actuarial and administrative costs for survivor benefits with comparable benefits provided by the private sector, because of differences in the population covered and the variety of plans available. However, it seems likely that the costs of providing CPP benefits are slightly higher due to its coverage of a broader population. CPP has comparable administrative costs to those of large pension plans and group life plans and significantly lower administrative costs than individual insurance.

L. Several Program Changes Warrant Serious Consideration

Many suggestions for changes, both major and minor, were elicited from key informants, including major stakeholders, the expert panel, as well as CPP program officers. Input on alternatives was also provided by surveys of survivors and of the general public. Ideas were also provided by reviewing how Canada compares with selected other countries. We concluded that the basic structures examined should be **retained**.

However, based on the input received, we have identified a substantial list of changes that are worth pursuing. The most important are listed below, along with a brief statement of the rationale for each change.

Change	Rationale
• Surviving Spouse's Benefit:	
Post-retirement:	
Replace the current system with a credit splitting mechanism for all, with survivor benefits payable on the death of the one partner based on the net retirement benefit credits of that partner. It would be necessary to reduce the current 60% factor (i.e., the proportion of the contributor's benefit that continues to the spouse on the contributor's death) to ensure cost neutrality.	This proposal, which would affect both the treatment of retirement benefits and survivor benefits, would change the current voluntary assignment approach on retirement to a compulsory one. At the same time it would change the "dependency" model of survivor benefits to an interdependency model, recognizing the joint contribution of both members of the couple.
Pre-retirement:	
Replace the benefit to age 65 with a lump sum transitional benefit, possibly with an option to receive an actuarially equivalent pension to age 65.	Recognizes the need for pre-retirement survivors to adjust to the new situation created by the death of a spouse.
Establish graduated eligibility, based on years of cohabitation (in the absence of children).	Recognizes gradual growth in interdependence of family members, and reduction of mutual reliance in the event of marriage breakdown.
Replace the surviving spouse and orphan's benefits by a "family benefit" more heavily weighted towards children.	Recognizes that the current structure may be a **proxy** for family benefit, to some extent. This proposal would change the benefit to recognize this fact more directly.
• Credit splitting:	
Eliminate voluntary aspects.	Given unequal information and bargaining power of spouses, the spouse with lower earnings should not have the possibility to trade away the benefit.
Change assignment provisions as discussed above under post-retirement benefits.	Same rationale as under post-retirement benefits.
• General dropout:	

Change to a fixed contributory period.	Eliminates some of the anomalies associated with early retirement reductions, credit splitting and CRDO. Also will fit in better with partial retirement provisions, if these are introduced in the CPP.
Increase the dropout, combined with a reduced level of benefit to maintain cost neutrality.	Recognizes more erratic work patterns and later entry/earlier exits from workforce. Will distribute retirement income from those with less variable to those with more variable life time work patterns.
• Child rearing dropout:	
Extend the provision to other family related duties.	Recognizes the reality that care givers have increasing responsibilities towards ageing parents and other relatives as well as towards children.
Change to a mechanism (to be determined) that fully compensates for years out of the workforce for child rearing.	More equitable treatment of women who leave the workforce for child rearing. Also elimination of anomalies associated with credit splitting.

Several possible changes were seen as not worth pursuing, most notably alternatives relating to pre-retirement survivor benefits that would include eliminating the age and family status distinctions; establishing a separate program; and eliminating the flat rate component. Nor do the findings support instituting a dynamic dropout based on future expected labour market conditions or linking the dropout to specific causes, e.g., further education, unemployment.

The alternatives identified as worth pursuing create benefits from "modernizing" provisions of the CPP to respond to the changed context. They appear not to create countervailing negative effects, especially increased cost and administrative complexity.

1. Introduction

A. The Scope of This Report

This study is part of a larger effort which encompasses the review of the retirement benefits and disability benefits under the Canada Pension Plan (CPP) being conducted by Human Resources Development Canada (HRDC). It is expected to contribute to the reshaping of all the elements of the CPP to meet the needs of the Canadian population into the future in an efficient and cost effective manner.

Prior to the introduction of the CPP in 1966, the government's direct role in providing retirement income to retired workers was limited to the flat rate Old Age Security program. There were no specific provisions for payments to survivors of workers, although surviving spouses over the age of 65 would have received an OAS benefit in their own name. Provision for survivors was available either through private pension plans, or through insurance policies purchased in the private insurance market.

The Canada Pension Plan was designed to make income available to retired and disabled workers, surviving spouses of deceased contributors and orphans. Virtually all workers in Canada, whether employees or self-employed, were required to contribute to the system. Quebec has its own scheme in lieu of CPP. CPP benefits are earnings-related and indexed annually to offset the effect of inflation.

The subjects for study in this report fall into two broad categories:

- Survivor Benefits (SB), which includes the Surviving Spouse's Pension (SSP), the Death Benefit (DB) and Orphan's Benefit (OB).
- selected features of the CPP which have a relevance to the entire CPP; namely, general and child rearing dropout provisions, credit splitting, assignment of pensions, the employers' contribution as a payroll tax, the interaction of survivor benefits with retirement benefits and with the variable contribution period to the CPP, some of which relate to survivor benefits.

This phase of the CPP evaluation is aimed at establishing whether there is a continuing rationale for the provision of survivor benefits and of other features of the CPP, to explore the success of this component in achieving its objectives, to examine how survivor benefits fit into the whole retirement and income security system and, finally, to examine possible alternatives.

B. The Sources of Evaluation Findings

This evaluation combines information derived from many sources. A literature review was conducted to provide the context for the evaluation by surveying issues surrounding survivor benefits and the ancillary features of the CPP. Among other topics we reviewed the relevance of survivor benefits in the current labour market and different commentator's views on the continuing need for a range of program features. This was followed by a special literature review of the labour market and competitiveness impacts of the employer/employee payroll tax that finances the CPP. In addition, we conducted an international comparison of six countries, selected to offer a broad spectrum of generosity in the treatment of survivor benefits and other relevant features of the CPP.

Interviews with federal program officials, provincial officials, and a range of stakeholder groups were conducted with respect to the full range of evaluation issues. Opinions were analyzed to identify those issue areas where there appeared to be significant consensus among knowledgeable informants and those areas where there was either uncertainty on the subject matter or differences in viewpoint.

Quantitative analysis conducted for this evaluation offered other findings:

- simulations using the Modular Analysis Package for Systems of Income Transfer (MAPSIT) explored the effect of differing scenarios of survivor benefits on a household's disposable income.
- SIMTAB (Simulation/Tabulation), a micro-simulation package maintained by HRDC, examined various policy alternatives and their effect on the proportion of survivor benefits recovered through the tax system or through lower costs of complementary programs such as GIS and provincial tax credits.
- The Office of the Superintendent of Financial Institutions used its CPP Actuarial Model to simulate a number of policy alternatives relating to the Surviving Spouse's Pension and selected CPP features such as the general dropout provision and credit splitting. Making comparisons with existing benefits, we used these models to assess the impacts and effects if certain features were changed.
- HRDC's administrative data were analyzed to profile beneficiaries, to determine the extent and nature of labour force attachment before and after receiving the survivor benefit, and the contribution of benefits to personal income.
- Statistics Canada's T1 Family Files, information from annual T1 income tax forms, were used to assess the **family** income situation of survivors, and to indicate the proportion of family income represented by benefits, as well as the extent of income replacement by SB.
- A survey of beneficiaries of a CPP Surviving Spouse's Pension was undertaken:
- to determine what proportion of total household income is represented by the Surviving Spouse's Pension (and Orphan's Benefit, as well, where applicable).
- to describe the characteristics of beneficiaries in terms of attributes not available through CPP administrative data for example, marital status, whether they own their home free of mortgage, and whether they received a life insurance benefit on the death of a spouse.
- to obtain the opinions of current beneficiaries with respect to a number of policy alternatives relating mainly to eligibility for the Surviving Spouse's Pension.
- A survey of two samples of the general public was conducted one of Canadians aged 25 to 44 and the other of Canadians 45 and older (excluding respondents to the survivor survey). The objective of this survey was to:
- supplement information on the extent of RRSP purchases and life insurance among the general public.
- determine their views on a number of policy alternatives relating to both survivor benefits and other features of the CPP such as credit splitting, and to relate these views to gender, age and marital status.

A panel of experts reviewed our principal findings and discussed with us their own views relating particularly to the continued relevance of survivor benefits and the pros and cons of certain alternative approaches to both survivor benefits and other components of the CPP.

This report integrates the qualitative and quantitative findings and indicates when findings are supported by multiple lines of evidence and where, also, there is either less conclusiveness in public and expert opinion or less certainty with respect to the appropriate interpretation of available data.

C. The Structure of This Report

The next chapter describes the historical development of CPP survivor benefits and selected CPP features of interest. Then the current program coverage and continuing rationale are examined. Chapter 4 examines the extent to which objectives have been achieved and addresses the key issue of the significance of survivor benefits in relation to all other sources of income, including personal income and, where applicable, that of other members of the household.

Impacts and effects of the survivor benefits and other features of the CPP are examined in Chapter 5, including an analysis of the economic effects of CPP contributions on employers and employees. The last chapter considers possible alternatives to the current policy, distinguishing clearly between aspects that affect Canadians of "pre-retirement" age and those in "post-retirement." It ends with a summary of changes worth pursuing and those not worth pursuing.

2. Historical Development of CPP Survivor Benefits and Other Features of the CPP

A. The CPP in 1966

The Canada Pension Plan was introduced in 1966, in parallel with the Quebec Pension Plan (QPP). The Plan provided for the first time a public, earnings-related retirement income, together with ancillary benefits such as disability benefits and survivor benefits. The purpose of the CPP was to make reasonable minimum earnings replacement available to all workers at retirement, if they were disabled, and to their dependants in case of death, up to an earnings ceiling. The Year's Maximum Pensionable Earnings (YMPE), which is the earnings ceiling, has been approximately equal to the average, annual industrial wage.

CPP survivor benefits were implemented as part of the original CPP in 1966, when most married women usually had little experience working outside the home in the paid labour force. Many employed Canadians did not have access to employer-sponsored pension plans, and many of those who did were subject to quite varying benefits. It was believed that most widows and dependent children would require assistance, as they could not adequately support themselves with employment earnings or income from other sources, such as investment income. Therefore, the federal and provincial governments agreed that survivor benefits under the CPP and QPP should ensure that the female spouse and dependent children of a male contributor would have a measure of earnings protection in the event of the contributor's death.

CPP survivor benefits, like the entire CPP, have always been financed through compulsory contributions of all employees and employers (including self-employed workers) and from the investment earnings of the CPP Investment Fund. The system was designed to be on a pay-as-you-go basis, with a small reserve fund in the long run. Initially, however, income exceeded outgo, and the excess funds were maintained in the CPP Investment Fund.

The CPP is a defined benefit plan in that CPP survivor benefits paid out, as well as CPP retirement and CPP disability benefits, are based on a formula driven by the level of earnings and length of contributions made by the worker. A ten year transition period was established for retirement benefits to deal with the first generation of recipients for whom the CPP was in place for only part of their working lives.

CPP survivor benefits have always had three main components: Death Benefits, widow's/widower's benefits (now called Surviving Spouse's Pension Benefits), and Orphan's Benefits.

Death Benefits provide a lump sum benefit equal to the lesser of six months of the deceased's CPP pension or 10% of the Year's Maximum Pensionable Earnings. The death benefit is subject to a minimum qualifying period of contributions of three to ten years.

Widows and widowers now receive benefits based on the same criteria. Originally, eligibility for widower's pensions was restricted to men who were disabled and substantially dependent on their wife for financial support at the time of her death. Widows qualified for a survivor pension if they had dependent/disabled children or were over the age of 35, as long as sufficient contributions had been made by the husband. Surviving spouses over age 65 receive up to 60% of their deceased spouse's retirement pension. Surviving spouses under 65 receive a flat rate portion plus 37.5% of the contributor's retirement pension. Prior to 1987, both widows and disabled widowers were not eligible to continue to receive CPP survivor benefits when they remarried.

Orphan's benefits are now paid on a flat-rate monthly basis for each dependent child of the contributor at the time of death. However, the original CPP allowed only four children to receive the full orphan's benefit pension ($25.50 in 1966); the fifth and subsequent children could receive only half the benefits of the first four ($12.75 in 1966).

Since it was introduced, the CPP has also included a general dropout provision, whereby the contributor's lowest earnings years are omitted from the calculation of lifetime earnings. This calculation is the basis of all the earnings-related pensions and, consequently, determines Surviving Spouse's Pension benefits. Up to 15% of the years in the total contributory period (ages 18 to 65, or to the retirement age, if the contributor retired between age 60 and 65) can be dropped out.

B. Reforms to CPP Survivor Benefits and Other Features - The Main Effects

Since the introduction of the CPP and QPP, several changes have been made to both systems. The key changes are described in this section.

In 1973, the QPP increased survivors benefits substantially, almost tripling them, to make up for reduced purchasing power of the pension benefits resulting from the high inflation of the late 1960s and 1970s. The CPP did not adjust survivor benefits that year, resulting in substantial differences in benefits between the two systems. The CPP did index all benefits to the Consumer Price Index in 1974, but in some cases major discrepancies remained between the QPP and CPP flat rate payments for orphan's benefits. Orphan's benefits under the CPP were somewhat higher and fully indexed for inflation. QPP benefits for orphan's were lower and not indexed for inflation.

In January 1975, CPP survivor benefits changed such that survivors of female contributors received the same benefits as survivors of male contributors, without the need to prove substantial dependence on the female contributor. Eligibility for being deemed a surviving spouse was also made easier.

Credit splitting was introduced in 1978 under the CPP, one year later than in Quebec. CPP pension credits earned by either spouse *during the years of cohabitation* are split equally between husband and wife upon divorce or annulment of marriage. Each spouse receives half of the couple's total pension credits, regardless of their individual contribution. This amendment to the CPP affects retirement benefits as well as survivor benefits in that credits transferred from an earlier marriage may be part of the calculation for benefits paid to surviving spouses and children from a subsequent marriage.

Another dropout provision to recognize child rearing was added to CPP in 1978 (although not implemented until 1983 when sufficient provincial approval was received). Spouses who leave the paid labour force to raise children under the age of seven (or who had below average earnings during such periods) can "drop out" those years from the calculation of life-time pensionable earnings, if it is advantageous to do so. This effectively raises the average pensionable earnings, which in turn determine benefit levels. Orphan's benefits were also adjusted in 1978 to eliminate the restriction on benefits paid for orphaned children who were the fifth or subsequent child in the family.

The period from 1976 through 1986 witnessed a major pension reform debate on all aspects of the CPP, as well as other elements of the pension system. The pension reform process attempted to deal with virtually all aspects of the CPP including funding, equality, Charter of Rights issues, and financial stability. The process of review led to a range of task forces, conferences, reports and federal-provincial agreements, which examined such ideas as substantially increasing benefits paid to survivors over 65, and transition payments for survivors under age 65. Eligibility rules relating to common-law spouses, remarried spouses, same-sex couples, ex-spouses and adult dependants were also examined. Only some of these issues were actually addressed by Bill C-116, which was passed by Parliament in 1986 to come into effect the next year.

As a result of the Bill, survivor benefits were no longer terminated upon re-marriage. Combined benefits (paid to a survivor with CPP retirement or disability pensions) were also made more generous. The earnings-related portions of combined retirement and survivor benefits were stacked, subject to a ceiling of one maximum retirement pension, for recipients over age 65. For those between 60 and 65, the flat rate component of the survivor's benefit was added to their actuarially-adjusted retirement pension and the earnings-related portion of the survivor's benefit. For combinations with disability benefits, the higher of the survivor or disability flat rate was paid. The combined survivor and disability payments were allowed to exceed the maximum retirement benefit ceiling.

Another survivor benefit reform introduced in 1986 was that orphan's benefits would be paid regardless of the status of the surviving child. In particular, the benefit continued to be paid even if the surviving child married, whereas prior to this amendment, marriage of the child would disentitle him or her to further benefits. Changes were also made in regard to entitlement of adopted children on the death of a natural parent.

Reconsideration of survivor benefits policy continued even as the new rules were being given effect. A Parliamentary Task Force on Pension Reform noted that demographic changes in particular, the increased participation of women in the workplace suggested the need for a specific study on survivor benefits. A consultation paper, published in 1987, pointed out:

> *As a direct result of the marked increase in labour force participation of women and in the increase in single-parent families, the 'traditional' one-earner (couple) for whom the existing benefit structure was designed dropped from 58% of all non-elderly families in 1967 to 27% in 1985.*

The report went on to make proposals for changes to four main elements: implementation provisions; a transitional benefit structure for current surviving spouses; a new benefit structure for future surviving spouses; and increased children's benefits. The proposals were subject to Parliamentary Committee review, public consultations, federal-provincial consultations and consideration of Finance ministers, but were not implemented.

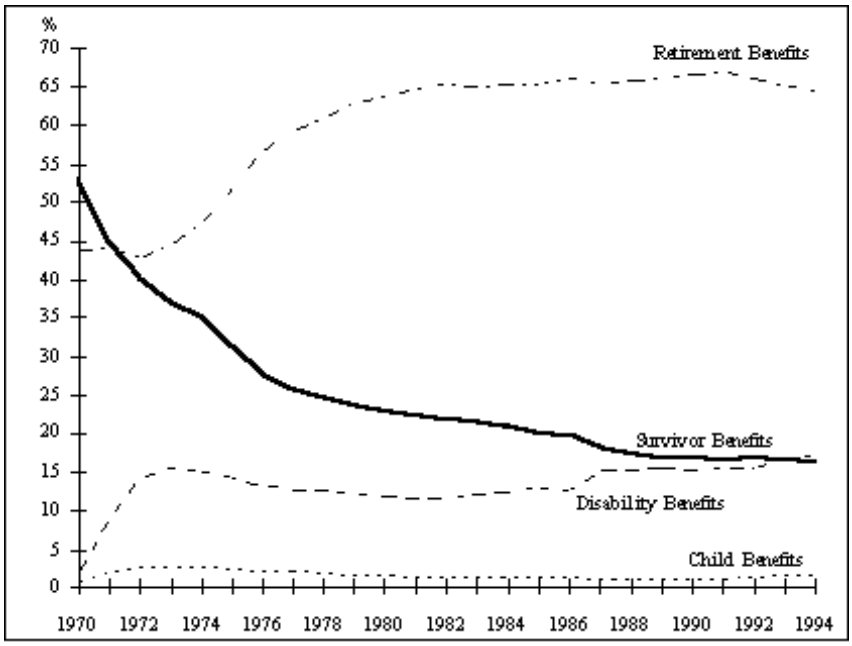
In 1991 an amending bill to the CPP was passed by Parliament that contained increases of 30% to orphan's benefits and benefits for children of disabled contributors. However, other changes to the Surviving Spouse's Pension were not agreed upon and were not included in the 1991 amendment. Reconsideration of survivor benefits has continued since that time, but no further amendments have been made.

Retirement benefit payments under CPP increased sharply between 1973 and 1986, rising from a low of 43% of total net payments to 66% in 1986. This period corresponds to increases in the retirement beneficiary population as the plan matured, to the liberalizing of pension eligibility, and to the improvement of benefits. Since 1986, retirement benefits have consistently accounted for almost two thirds of the total payments. Recently, the share of total payments accounted for by retirement has fluctuated between 65% and 67% from 1991 to 1996.

Survivor benefits combined with orphan's and death benefits made up 16% of total net CPP payments in 1994. This represents the lowest percentage in the period from 1970 through 1994 attributable to these components of the CPP. As shown in Exhibit II-1, the portion of total payments allocated to survivor benefits (including the Surviving Spouse's Pension, orphan's and death benefits) has fallen steadily since 1970.

Since 1989, the survivor benefit category of CPP payments has stabilized at between 16% and 17% of total payments. In this category, the Surviving Spouse's Pension comprised 13.6%, orphan's benefits were 1.3%, and death benefits made up 1.5% of total net payments in 1994. Orphan's benefits have accounted for a smaller portion of total payments than death benefits since 1986. Prior to 1986, orphan's benefits were always a greater portion of total payments than death benefits. These trends are accounted for by the maturing of the over-65 beneficiary population and the lower birth rate since the baby-boom.

EXHIBIT II-1CPP Benefit Components, Percentage of Payments



Source: Data provided by Planning and Strategic Studies, Human Resources Development Canada, January 1995.

3. Program Rationale and its Continued Relevance

A. Introduction

This chapter reviews the rationale for survivor benefits and other features of the CPP. The social, demographic and economic conditions in Canada have evolved dramatically since the mid 1960's, when the basic provisions being studied were implemented. Conditions have even changed since the 1970's and 1980's when new features to the CPP (e.g. flexible retirement, child rearing dropout, credit splitting on marriage breakdown) were implemented.

The chapter is organized as follows:

- a discussion on the original rationale of various components, either at inception of the CPP, or when they were added or significantly modified;
- discussion of changes in social, demographic and economic conditions that might have an impact of the continuing rationale for various components of the CPP under study;
- analysis of the evidence for the continued rationale. In the case of the Surviving Spouse's Pension, a number of sub-issues are examined;
- an overall conclusion of the above analysis responding to the questions on rationale identified in the evaluation planning report.

B. Original Rationale for Survivor Benefits and Other Ancillary Benefits in General

1. Survivor Benefits

The stated reason for the introduction of the CPP as a whole was to provide a measure of protection to all Canadian workers and their families against the loss of earnings due to the death, disability or retirement of the worker. The CPP survivor benefits were developed to address the potential financial difficulty faced by the surviving spouse and dependent children in the event of the death of the main income provider in the family.

The primary role of the CPP is earnings replacement, as indicated by the Minister of National Health and Welfare at the time of the CPP's introduction. The Minister summarized the issue as follows: "What people need, if either retirement or the death or disablement of the head of the family removes their regular income, is related in part to the level of earnings to which they have been accustomed." Income replacement provided by the CPP was tied to earnings, not solely to the contributions made to the

program. There are both elements of "income distribution" and "insurance" that weaken the strict relationship between contributions made by the contributor and benefits received by a beneficiary. For example, contributors pay contributions only on earnings in excess of the Year's Basic Exemption (YBE),[1] while benefits are based on the entire earnings rate, up to the Year's Maximum Pensionable Earnings (YMPE).

The table below illustrates this effect for two sample salaries:

	Salary at 20% of YMPE	Salary at 100% YMPE
Contribution base	10% of YMPE	90% of YMPE
Benefits	5% of YMPE	25% of YMPE
Benefit/contribution base ratio	50%	28%

The insurance element in the case of disability and survivor benefits is reflected in the flat rate component. This is independent of the contributor's earnings record and is payable once the contributor has met the eligibility criteria for the benefit. Therefore, low income contributors, disabled persons, and survivors in many cases receive a much larger benefit, as a proportion of contributions paid, than other beneficiaries.

The provision of CPP survivor benefits may also act as a substitute for life insurance for the family's main income earner. For young families who have relatively higher demand for life insurance, survivor benefits may be viewed as having a life insurance component as well as income support provisions. Substitution of CPP for life insurance would be most prevalent in lower income families.

Prior to the introduction of the CPP in 1966, private pension plans were becoming an increasingly important part of the negotiated compensation packages provided in the private sector. Private plans were growing in importance, particularly in Ontario, and would have become more prevalent in the absence of the CPP according to the *Report of the Ontario Task Force on Inflation Protection for Employment Pension Plans* (1988). By 1960, 34% of Canadian workers participated in private pension plans; coverage increased to 38% of workers by 1965.

More recent data from Statistics Canada on private pension plans indicate that 44.6% of paid workers were covered by private pension plans in 1993. Of the total labour force, only 35.4% were covered by private plans.[2] Statistics Canada's Ageing and Independence survey, 1991, shows that men were far more likely than women to have a job-related pension. Data from the Survey of Surviving Spouses conducted for this evaluation shows that 45% of the female survivors reported having some income from private pension plans, although the amount (proportion of total household income) was not established.

Private registered retirement savings plans (RRSPs) do provide for surviving spouses in that the RRSP can be transferred to the surviving spouse when the owner of the RRSP dies. RRSPs are not used by the majority of the Canadian population. The 1993 Canadian Institute of Actuaries report cites a survey that found 35% of Canadians contribute to RRSPs and Statistics Canada reports that only 26% of all taxfilers contributed to an RRSP in 1993. [3]Revenue Canada data for 1992 show that, at all age groups, a smaller percentage of women than men contributed to RRSPs. Data on withdrawals from RRSPs indicate that many Canadians use RRSP funds before they retire, thus weakening the effectiveness of RRSPs as a retirement income protection instrument. With respect to income from RRSPs, our survey of CPP beneficiaries indicated that in 1995, 25% of the female survivors had some income from an RRSP.

Workers' Compensation programs were an earlier form of social security that offered coverage for survivors and children. These programs have existed in all provinces since 1950, well before the Canada Pension Plan. However, Workers' Compensation provides benefits for survivors only in cases of work-related causes of death.

2. Surviving Spouse's Pensions

"In the social context in which CPP was introduced, a man was considered to be the family breadwinner, and was expected to provide financial security for his wife and children. Married women, for the most part, were expected to be homemakers, without earnings of their own. For this reason, survivors' benefits were designed to help widows and orphans. However, widows under age 45 were presumed capable of finding gainful employment, unless they were disabled or had dependent children in their care."[4]

In the case of widows age 65 or over, the survivor pension was 60% of the husband's pension. In addition, she would have received $75 per month in 1966 from OAS. This plan design was consistent with major public sector employee-spousal pension plans at the time.

Widows under age 65 would receive 37.5% of their husband's entitlement, plus $25, provided they were over the age of 45 and with dependent children. Younger widows without dependent children or not disabled would receive a pro-rated amount (no benefit if they were under age 35).

This design is not consistent with that for other pension plans the rationale seems to be that the Surviving Spouse's Pension for survivors under the age of 65 is partially "earnings replacement" and partially "income support". In fact, the flat rate component clearly simulates a proportion of the OAS that survivors over the age of 65 would have received.

Subsequent changes to the CPP all recognized that the notion of all married women as homemakers was obsolete and removed the distinction between male and female survivors. However, the age, presence of a disability, and family status criteria remain.

3. Orphan's Benefits

The Orphan's Benefit was a flat $25 per month and was seen as insurance in the event of the death of the father. Originally only one benefit per child was payable, even if both parents were CPP contributors. This was amended in 1987, indicating a subtle change from "insurance" to "entitlement". A limit of two benefits per child was substituted.

It is likely that this benefit was introduced based on provisions in existing social security programs in other countries and other pension plans in Canada. For example, the *Public Service Superannuation Act (PSSA)* provides children's benefits to deceased contributors to age 21, or age 25 if they are in full time education.

This design was also consistent with the view of family benefits and the need to provide for children on the death of the breadwinner, prevalent at the time.

4. Death Benefit

Health and Welfare Canada's 1992 review of the CPP offers a rare glimpse into the rationale for the Death Benefit component. "A benefit payable on the death of a contributor was considered desirable for reasons of fairness and practicality. Even if there were no survivors, it would be only fair to provide some return of the contributions that had been made to the Plan which might be used to cover funeral expenses. If a pension were already in pay, the application for a death benefit would be the notification that it should be terminated."[5]

This quote indicates that the rationale was two-fold:

1. to provide a *de minimis* benefit, in the event that no other benefits were payable; it would substitute for "return of contributions" under a typical contributory pension plan, and
2. to provide an incentive to report a death of a pensioner this approach is seen in a number of employer-sponsored pension plans.

Reference is also made to "funeral expenses", but this does not seem to be its main rationale.

5. Dropout Provisions

Since its inception in 1966, the CPP has permitted contributors to exclude (or "drop out") the years of lowest earnings from their contributory period. Since inception, this general dropout provision has allowed 15% of years with lowest earnings to be dropped out in calculating C/QPP benefits. Given the maximum contributory period will ultimately be 47 years for those retiring at age 65 or more (65-18), the general dropout provision could mean that full benefits would be paid if 40 years are worked.

The child rearing dropout provision was added to the CPP in 1978 (although implementation was delayed until 1983 due to provincial opposition). This provision permits parents to drop out additional years for raising children up to seven years old. The number of years dropped out for child rearing is not limited to 15%; it is determined only by the number years out of the workforce, or in which earnings are below the contributor's average while caring for children under seven.

The rationale for the child rearing dropout provision was to avoid penalizing contributors (mostly women) who left the workforce, or who had years of low earnings while caring for children under the age of seven. It is not clear whether there was a more specific objective of ensuring that such contributors' benefits would approximate those of contributors who had not left the workforce. In this case, this specific objective is not being met in a number of cases, as will be explained later.

The Canadian Institute of Actuaries comments that the general dropout provision makes sense for many contributors who often do not start working until their early twenties, or who miss some period of employment, or who must retire early. They also recognize that the child rearing dropout is valuable in that it addresses concerns about lack of coverage for homemakers.

Dropout provisions effectively raise pension (and therefore survivor) benefits. Pensionable earnings are calculated based on average lifetime earnings. Omitting low earnings years raises the average on which CPP pensions are calculated. The dropout provisions are to permit contributors to disregard certain periods of low or zero earnings, thereby preserving the value of the pension earned outside these periods.

Flexible retirement in the CPP has effectively shortened the potential contributory period. For example, a full pension (although reduced by the early retirement reduction) is available after 35.7 years for a person who retires at age 60. This and other changes (child rearing dropout and credit splitting) have had some unexpected impacts on the dropout provision. These are further discussed in Chapter 5.

6. Credit Splitting

Credit splitting refers to the division of CPP pension credits [6]between members of divorced or separated couples. Credit splitting is done by adding together all pension credits of both spouses for each year they cohabited, and dividing the credits equally

between them. Credit splitting is mandatory for most divorcing couples. It applies to legally married and common-law couples that have lived together for one year or more. The split credits are not actually paid to either spouse but are credited to the individual's Record of Earnings which determines retirement, survivor, disability or children's benefits. Credit splitting was first introduced in 1978 to address the increased frequency of marriage breakdowns.

Credit splitting recognizes the reality that pensions are marital property that should be divided equally on marriage breakdown.

7. Assignment of Benefits

The rationale for the assignment of a pension in pay would appear to be based on an argument of equity non-separated spouses should not have fewer options than separated spouses. In any case, this provision seems mainly to have the effect of allowing income splitting for income tax purposes. However, it does provide a spouse who had little or no attachment to the workforce a pension in his or her own name, as is currently the case with OAS and GIS and in the proposed income-tested Seniors Benefit.

C. Changes in Social, Demographic and Economic Conditions

It should be recognized that most of the benefits being studied in the evaluation are primarily of interest to women: 90% of survivors are women; orphan's benefits are mostly paid to children who have lost their fathers; and credit splitting is mainly intended to benefit women. The general dropout provision is of greater benefit to those with erratic earnings, as compared to those with a more level earnings record. Women tend to have more erratic earnings than men, generally speaking.

In the mid-1960's the typical Canadian family pattern consisted of a male breadwinner and a non-working wife taking care of children. The death of the breadwinner would not only put an immediate financial strain on the family unit, but would also compromise the retirement savings of the couple. Exhibit III-1 identifies some of the key changes that have occurred, in recent years, together with impacts such changes might have on the rationale for various components. In the next section, we examine the rationale for the program given the social changes that have occurred.

EXHIBIT III-1 Key Changes in Canadian Family Patterns Affecting Program Rationale

Change	Impact on rationale / comments
Dramatic increase in women's participation in labour force	Increase in women earning income and retirement credits in their own names might weaken the rationale for benefits based on dependency. On the other hand, two earner families rely on both incomes to meet current expenses and eventual retirement expenses. Loss of one earner still requires replacement of that income.
High divorce rates, more common-law relationships.	Accommodated by recognition of common-law spouses and implementation of credit splitting.
Changing attitudes to age and sex discrimination	Overtly discriminatory practices (payment to widows only, cessation on remarriage) have been eliminated. Age distinction in retirement and insurance programs are still essential for efficient functioning of programs. Other remaining issues (age/family status distinctions for pre-retirement benefits, same sex spouses) are still under discussion.
More "non standard work" patterns, especially among women	Does not change rationale for survivor benefits and other ancillary benefits may in fact strengthen it as employer provided benefits are less likely in part-time, self-employment, voluntary sector etc.
Move away from "entitlement" based social security towards "income-tested" benefits (e.g. toward the Child Tax Credit and the proposed Seniors Benefit)	Need still exists for basic income replacement program erosion of life-time employment patterns makes CPP ever more necessary, as floor plan.

D. Analysis of Evidence for Continued Rationale

1. Surviving Spouse's Benefits

. Pre-Retirement Versus Post-Retirement Survivors

In discussing the rationale for the surviving spouses' benefits, a clear distinction was made by interviewees and the expert panel between pre-retirement survivor benefits, i.e. those paid to surviving spouses under age 65, and post-retirement benefits, payable to surviving spouses 65 years of age or older.

The post-retirement benefit is 60% of the benefit that would have been payable to the contributor, had he or she still been alive. It is payable for the life-time of the survivor. There was consensus that the rationale for this benefit continued to be valid, as this benefit represented the residual family income required in the post-retirement period, based on the contributor's accrued pension. It was clearly seen as "earnings replacement." It is consistent with the benefit design mandated by pension legislation for private pension plans, and consistent with the post-retirement survivor benefit design

seen in countries chosen for the international study.

There is far less consensus on the issues surrounding the pre-retirement survivor benefits, which are viewed as an insurance benefit to some extent. These issues are further discussed below.

b. Flat Rate Component

The CPP program as a whole is generally viewed as an income-replacement program, that is benefits are related to contributions made (which are a function of earnings during the contributory period). While some limited degree of income redistribution is tolerated, the general consensus is that by and large such redistribution should be minimized. These views were shared by interviewees and the expert panel.

In the case of pre-retirement survivor benefits, the formula includes a flat-rate component which is not related to the deceased contributor's earnings record. There is therefore an element of "income support", or insurance, as well as income replacement. Hence, interviewees as well as the expert panel found the rationale for this benefit design is less clear than in the case of the post-retirement benefits.

One stakeholder interviewee felt that the CPP should be purely a pension plan and so survivor benefits should have no flat-rate components at all. Others generally felt that there was a role for income support, given that death may occur at an early age. Otherwise death of a spouse could give rise to a small and meaningless benefit, based on contributions alone.

Our literature review indicates that the design of the CPP took into account all social programs for retirement, including the OAS. The flat rate survivor benefit therefore simulates the OAS component for those under 65. (This was confirmed by CPP program officers in fact, the original flat rate component was one-third of the OAS at the time of implementation of the CPP.)

The introduction of the Widowed Spouse's Allowance, the enhancement of children's benefits on an income-tested basis, and the eventual replacement of the OAS by the fully income-tested Seniors Benefit, all bring into question whether the original design concept of simulating the OAS remains valid.

It should be noted that notwithstanding the above, most interviewees and the expert panel agreed that flat rate benefits were still needed and useful. On the other hand, some expressed the view that caution should be exercised in using a contributory social security program based on payroll tax for income support purposes, however worthy the program.

c. Age and Family Status Structure

Pre-retirement survivor benefits are based on "perceived needs", i.e. benefits are tailored to those people policy-makers viewed as being in the greatest need. This includes older survivors, whatever their family status, and survivors with dependent children as well as disabled survivors. Originally, policy-makers felt that widows, but not widowers (except in exceptional circumstances) or remarried widows, were needful of assistance.

Changes in societal attitudes have brought about the elimination of some, but not all, of these distinctions. Based on feedback from the expert panel and interviewees, there was no clear consensus regarding removing the remaining age and family status criteria. Extending such benefits fully to those under 45 without dependent children would increase costs somewhat. Alternatively, on a cost neutral basis such a move would reduce average benefits for the currently targeted groups. Conformity with Charter of Rights principles might conflict with the focussing of benefits on those seen to be in greatest need.

On the other hand, only the UK, among the comparator countries,[7] has a structure similar to Canada's, in which pre-retirement benefits are related to perceived needs. It is possible that the rationale for the payment of SB to younger survivors with children in Canada is a proxy for "family benefits". In which case, a uniform, but lower spousal benefit, together with enhanced children's benefits may meet the rationale more appropriately.

There was general consensus, however, that older surviving spouses should not have benefits reduced, in view of their difficulty of reintegrating or increasing their attachment to the workforce, or availability of other methods of mitigating their family income loss.

The conclusion to emerge from experts and key informants was the current structure may need review in the light of changing social conditions. The direction of change, as we will see later, remained unclear.

d. Alternative Sources of Survivor Income

Survivors may be entitled to spousal benefits under private pension plans, group life insurance and individual life insurance. For some, these sources may be adequate without reliance on CPP survivor benefits. There could be an argument that with the availability of these alternative sources of survivor income the rationale for the CPP survivor benefits is weakened. However, CPP benefits have "worked their way" into the system. For example, private pension plans are often integrated with the CPP, albeit in an imperfect way insofar as survivor benefits are concerned. Also, it may be that individual or group insurance target benefits take expected CPP into account. Therefore, it would be difficult to remove such benefits in the future without having a detrimental effect on incomes of survivors, especially at the lower end of the income scale, or

increasing other social security payments.

On the question of whether the federal government should provide survivor benefits, there was general consensus among interviewees that provision through the CPP (i.e: by the federal government) was the most cost effective and appropriate method. The survivor benefit was seen as closely linked to the retirement benefit, and should therefore be provided from the same source.

e. Adequacy of Survivor Benefits Under Current Conditions

Public pensions were never designed to provide security for the entire earnings range nor full income within the covered income range. The CPP was designed to "assist" in the provision of retirement income and other ancillary benefits. It appears that the aim was to replace about 40% of income for a single contributor, up to a ceiling equal to the average annual industrial earnings, from combined OAS and CPP sources.

Supplementary coverage was meant to be provided by private sources to ensure adequate income replacement on retirement, death or disability of a contributor. The objective for total coverage was not specified.

Given this approach, it is difficult to assess CPP survivor benefits quantitatively for adequacy. Evidence presented in Chapter 4 shows that, as was intended, very few rely exclusively on these benefits for sustenance. However, for many, such benefits represent a significant proportion of their income, so their continued relevance in qualitative senses cannot be questioned.

f. Conclusions

The continued rationale for post-retirement survivor benefits in their present format is clear and has the support of interviewees and the expert panel. This conclusion can probably be extended to older pre-retirement survivors as well (say over age 55). These survivors represent the vast majority of all survivors. Continuing improvements in mortality will only serve to increase this proportion in the future.

While the rationale for pre-retirement survivor benefits is also validated by all the sources, the support for the current structure (which, besides elimination of overt discrimination features, has remained unchanged since inception) is less strong. There is general consensus that the current system of combined income replacement/income support, while not "pure", meets the needs of survivors and should be continued.

There was less consensus on the age/family status structure, in view of Charter concerns as well as changing family patterns, including such issues as support of elderly or disabled parents and relatives as well as dependent children, and same sex spouses/economic union issues.

Adequacy of benefits was not originally specified in quantitative terms. However, the current benefits replace much the same proportion of earnings as was the case at the outset of the CPP.

2. Orphan's Benefits

Orphan's Benefits are payable as a flat rate to children of a deceased contributor. The rationale is clearly to provide support for children of deceased contributors. They are payable unconditionally to age 18, and as late as age 25, contingent on the child being in full-time education.

Far fewer respondents expressed opinions about the rationale for orphan's benefits, as compared to surviving spouse's benefits. On the other hand, those who did saw them in the context of "family benefits", which are particularly needful in case of death where the contributor has a young family.

As noted above, the level of survivor benefits was originally established with the entire range of social benefits in mind. Childrens' benefits have undergone the most radical change to date, from a "universal" benefit to a benefit aimed at lower income families and no benefits at all for higher income families. In the light of the changes, panelists felt that the rationale for an orphan's benefits in the original form should be reviewed.

The rationale for contingent payment after age 18, based on continuation of education, was questioned by some. Although the rationale is clear (to support students of a deceased contributor), uniformity of age of cessation was cited as a reason for eliminating this provision. However, the counter argument would stress the value of investment in human capital.

While there was not much discussion of these benefits, it was generally felt that they are not costly; so there was not a strong consensus to eliminate them either.

3. Death Benefits

The original rationale, namely, to provide a basic, minimum payment and to encourage the reporting of a death, has not changed. However, very little discussion of this benefit was engendered, either with the expert panel or the interviewees. Evidence from the international study was mixed with some countries having a lesser benefit than Canada, while others have substantially greater benefits.

In summary, a number of respondents questioned the need for this benefit in today's society. Those who think of it solely as a subsidy of funeral expenses think that few, besides the totally indigent, would **not** have enough money available for a simple funeral. Nonetheless, as with orphan's benefits, the death benefit was not considered a significant cost within the total CPP either and few recommended its elimination.

4. General Dropout Provisions

The general dropout of 15% of the years of lowest earnings during the contributory period has been a feature from the inception of the CPP. While its intention was to eliminate the negative impact on the CPP pension of years of absence from, or weak attachment to, the workforce due to illness, unemployment, and continued education, these specific grounds were not incorporated into the Plan. The dropout was designed on a "general" basis. The specific dropout was for months while on CPP disability pension. (The corollary of this is that virtually the only contributors receiving a 100% CPP retirement pension are those who have experienced considerable time on CPP disability. In other words, it is extremely difficult to qualify for a 100% pension even with the general dropout.)

Changes to the CPP since inception, principally flexible retirement ages, and introduction of the child rearing dropout and credit splitting have produced some unexpected impacts on the general dropout. More discussion of these issues, together with examples, are found in Chapter 5. Some of the stakeholder interviewees seemed to be aware of these issues, although others minimized their importance. Among those who responded, there was questioning of the basic rationale for the dropout provision of its place in a contributory social insurance plan. Others, however, supported the original rationale.

The expert panel was very supportive of the initial rationale, and indeed felt it was even more required in the current and evolving economic conditions of a less secure employment, more non-standard work and difficulty experienced by young people in entering the workforce in the first place.

There was no support for linking the dropout to specific causes of absence, other than child rearing dropout, as at present. Also the panel did not seem to be concerned by the anomalies mentioned above. However, it was suggested that the 15% figure be reviewed in the light of changing economic and social conditions (see Chapter 7 for more discussion on this point).

In relation to comparator countries, a dropout expressed as a proportion of a fixed contributory period would appear to resemble the systems indicated in our international review more closely. As the report on the international review points out, direct comparison with the CPP dropout system is quite difficult. The U.K. probably has the closest design, with a fixed 20 year contributory period. The U.S. would also be categorized in a similar manner, although the benefit design in terms of earnings levels and years of contribution is considerably more complex than in the CPP.

5. Child Rearing Dropout Provision

The provision of a child rearing dropout was not part of the original CPP design. It came into effect in 1983 retroactive to 1978 as a response to higher participation of women in the workforce and the need to protect contributors who left the workforce to raise young children against a negative impact on their CPP pension due to low or zero-earning years. It should be noted that there is no limit to the number of years that can be dropped out for this purpose, as compared to the limit on the general dropout provision.

There was much support for the continuation of this provision, as it is a means to encourage women to remain in the workforce in the longer run, while taking time out to raise a family. Others highlighted some concerns with this provision, for example:

- it is unfair to those who re-enter the workforce soon after the birth of their child(ren).
- it is a redistributional provision, and has no place in an earnings-related social insurance program.
- it does not recognize women's contributions to the care of elderly or disabled relatives, as compared to young children.

In spite of these shortcomings, support for the continued rationale was particularly strong among the expert panel, somewhat more mixed among the key informants.

6. Credit Splitting

Credit splitting on marriage breakdown was introduced in 1978, 12 years after the inception of the CPP. This provision recognized the evolving social reality of higher divorce rates and lesser probability of life-time unions, as compared to earlier epochs.

Subsequent amendments to this provision had the effect of giving recognition to common-law unions, and separation as well as divorce or annulment. Other amendments effectively made this provision mandatory instead of voluntary, at least in principle. On separation, credit splitting is only by application to the CPP.

Provinces may decide whether this provision can be applied on a voluntary basis, allowing couples to trade-off CPP entitlements in the same way as other marital assets. Currently, only Saskatchewan and British Columbia have taken advantage of this provision. The situation in Québec would be similar to that in these two provinces, although the Civil Code differs somewhat from the common law in effect in the other nine provinces.

There was strong support for the rationale for this provision, given the continued high rates of marriage breakdown and general

acceptance of sharing of marital property. There is also strong support for a mandatory approach. It should be noted that a significant proportion of the interviewees were not aware that it was already mandatory, and recommended that the provision be "changed" to make it mandatory. This reflects the reality that, to date, awareness of the provision is low and effective enforcement/communication mechanisms have not been found.

It is interesting to note a split in opinion regarding the mandatory nature of the credit split between experts and key informants on the one hand and the general public (as indicated in the various surveys) on the other. The general public appears to support "choice" in general and opposes mandatory provisions which limit choice. The experts, on the other hand, recognize that parties (especially women) may be poorly informed about the value of their entitlement and might be inclined to trade it away too easily. The experts feel that limitation of choice was warranted in this case due to the asymmetric knowledge and bargaining power of the two sides of marriage breakdown.

The international study showed that no other country has implemented a credit splitting approach. However, some countries do pro-rate survivor benefits, while others are considering credit splitting provisions.

7. Assignment of Benefits

Even in the absence of a marriage breakdown, spouses in receipt of a CPP pension can assign each other half of their pension. There was not much discussion of this particular provision. Where it was discussed it gave rise to mixed feelings.

On the one hand, it was seen as purely an income splitting device to reduce income taxes. The rationale for this was questionable, especially as "special deals" for seniors seem to be coming to an end. On the other hand, it is viewed as giving a spouse who may not have his or her own income a right to a pension in his or her own name. This is similar to the current OAS and GIS provisions as well as the proposed Seniors Benefits.

E. Summary

In spite of changing conditions there is strong evidence for a need for surviving spouse's benefits. There is strong evidence for the rationale of **post-retirement** survivor benefits in its present form. There is consensus for continuation of **pre-retirement** survivor benefits in their current form, but it is weaker than the consensus in regard to post-retirement benefits. Flat-rate benefits and age/family status criteria are questioned by some experts. Current beneficiaries tended to support the *status quo* when surveyed with respect to whether benefits should vary with the age of the surviving spouse and whether benefits should be related to the survivor's income.

Insofar as orphan's benefits and the death benefit are concerned, far less discussion was elicited from the expert panel and key informants. Current beneficiaries support the current rules. By and large, experts were less supportive of the rationale than in the case of spousal survivor benefits. Conversely, there was little support for the elimination of these benefits, partly because of the insignificant savings that this would bring about.

Adequacy of the benefit was validated in a qualitative sense, in relation to original, **implicit** replacement target, but interaction with other evolving social programs was questioned.

Finally, strong support was shown for continued provision of survivor benefits from the federal source (i.e. CPP).

The continued rationale for the general dropout provision was supported, even enhanced in view of labour market instability, and in spite of changed labour force participation of working mothers, evidence for continued need for the specific child rearing dropout provision was offered.

Strong support was shown among experts for the rationale for continuation of credit splitting on marriage breakdown. Assignment of pensions in the absence of marriage breakdown was questioned.

[1]YBE = 10% of YMPE. Back

[2]Statistics Canada. (1996) Cat. 74-507. Canada's Retirement Income Programs: A Statistical Overview. p.47. Back

[3]Ibid. p.84. Our survey of the general population 25 years of age and older found that about two-thirds of the sample had contributed to an RRSP (either personally or reporting on a spouse's contribution) at least once in their lifetime. No indication of the amount or whether the contribution had subsequently been withdrawn was obtained. Back

[4]Health and Welfare Canada. (1992) Historical Development of the Canada Pension Plan 1966-1991. p.66. Back

[5]Health and Welfare Canada. (1992) Historical Development of the Canada Pension Plan 1966-1991. p.65. Back

[6]The technical term is 'Division of Unadjusted Pensionable Earnings,' also called CPP pension credits. Back

[7]See Appendix A for a summary of our analysis of how Canada compares with other countries. The six countries chosen are: Argentina, Australia, France, Sweden, United Kingdom and the United States. Back

4.Objectives Achievement-Survivor Benefits

In this chapter we profile current beneficiaries of a Surviving Spouse's Pension (SSPs) and examine the extent to which the benefits contribute to the program objective of offering a measure of earnings protection to the survivors of a deceased CPP contributor. We then examine the appropriateness of different eligibility rules by examining the opinions of current survivors and the general public, and by simulating the effects of possible changes to the rules.

A. Profile of Current Beneficiaries

1. Administrative Data Sources

The number of recipients of CPP survivor's pensions has increased rapidly over the last three decades, from less than 100,000 in the early 1970s to 735,345 in January 1996. In that month, 88.9% of the beneficiaries were women, and of the women 72.4% were over the age of 65. Exhibit IV-1 shows that the number of beneficiaries under the age of 45 is very small indeed.

The total dollars expended for Survivor's Pensions in 1995, including those to survivors living abroad, was $2.2 billion. In the month of January 1996 the domestic benefit expenditure was $180.7 million, with an average benefit of $244.01. Younger female beneficiaries those of pre-retirement age represented only 27.6% of the number of beneficiaries, but represented 32% of the dollar value of the benefits to female survivors. Details of the surviving spouses' monthly benefit are shown below:

Surviving Spouse's monthly benefit:

- while spouse under 65: $127.04 + 37.5% of deceased's retirement pension (maximum in 1996: $399.70); unless disabled or has dependent children, spouse under age 45 entitled to reduced benefit, and no benefit if under age 35.
- while spouse is 65 or over: 60% of deceased's retirement pension (maximum in 1996: $436.25).
- if surviving spouse also entitled to retirement or disability benefits, combined benefit is subject to various maximum amounts.[8]

EXHIBIT IV-1 Distribution of Survivor's Pensions,* by Age and by Gender January 1996

	Male			Female		
Age	Number	Amount	Average	Number	Amount	Average
		$	$		$	$
-25	3	372	124.04	150	34,568	230.45
25-29	50	10,255	205.09	864	218,734	253.4
30-34	356	82,262	231.07	3,343	954,616	285.63
35-39	1,216	276,316	227.48	7,515	2,090,178	278.02
40-44	2,570	584,381	227.51	13,572	3,547,893	261.25
45-49	4,360	1,078,836	247.54	22,157	6,371,669	287.24
50-54	5,768	1,487,771	257.88	29,833	9,243,061	309.44
55-59	7,106	1,845,721	259.70	41,850	13,510,723	321.27
60-64	10,028	2,229,200	215.56	61,572	19,371,065	311.55
65-69	12,637	805,144	61.57	89,126	22,985,669	255.24
70-74	13,383	859,515	62.74	118,110	29,500,192	247.42
75-79	11,127	1,210,958	106.00	114,766	27,344,080	236.51
80+	13,468	1,890,120	136.32	150,415	33,244,467	219.99
Total	82,072	12,360,850	148.18	653,273	168,416,914	256.05

*Does not include QPP or benefits paid by the supplementary cheques system nor under international agreements on social security.

Source: *Canada Pension Plan, Statistical Bulletin*, January 1996.

Examination of annual benefits by age at start of benefits showed the same pattern for males and females: a tendency evident in the data from 1977 (the first year for which these data were examined) for men, and since 1982 for women, was for those who started benefits **after** age 65 to receive lower benefits than for those who started before age 65.

The discontinuity of average benefits between the 60-64 and 65-69 age groups shown in the exhibit is caused by the change from the pre-retirement benefit, which consists of an earnings-related plus flat-rate benefit, to the post-retirement benefit, which is earnings related only. The drop in average benefits is particularly noticeable for males, where widower's pensions are based on low earnings of their deceased wife. This effect is masked in the pre-retirement period by the presence of the flat-rate benefit.

Exhibit IV-2 shows the trend in the number of **new** Surviving Spouse's Pensions since 1984. Each year, until very recently, the

number has grown quite steadily, for both males and females. This trend reflects demographic conditions among CPP contributors and their families. As of 1995, however, the data[9]suggest that the number of new benefits might be starting to stabilize, even to decline slightly.

EXHIBIT IV-2 Number of New Surviving Spouse's Pensions, by Gender and Year

Source: Canada Pension Plan Statistics.

Analysis of other data shows:

- a dramatic increase in the **proportion** of pensions paid to women over 75 a percentage point increase of 24 from 1984 to 1995.
- a steady upward trend in the average age of **new** beneficiaries. (See Exhibit IV-3.)
- a rise in the average number of years that beneficiaries receive a Spouse's Pension for beneficiaries over the age of 75, the average duration has risen from 5.5 years in 1976 to 11.5 years in 1995.

EXHIBIT IV-3 Average Age at Start of Surviving Spouse's Pension, by Gender

Source:Canada Pension Plan Master Benefit File extract.

- a downward trend in attachment to the labour force by beneficiaries. Reflecting the increasing average age of beneficiaries, the average annual duration of employment has declined from 12 to 5 weeks for female survivors and from 21 to 11 weeks for male survivors. This is reflected in a downward trend in employment income[10], as well.

2. Characteristics of Beneficiaries: The Survey Results

The Survey of Beneficiaries of CPP Surviving Spouse's Pensions provides characteristics of beneficiaries in terms of attributes not available through CPP administrative data. The respondents to this 1996 survey [11]are derived from participants in Canadian Facts' Canadian Family Opinion (CFO) Panel who indicated in an earlier survey that they were in receipt of a CPP Surviving Spouse's Pension. The CFO Panel is a continuously-maintained panel, broadly representative of Canadians across the country. CFO panelists participate from time to time in responding to self-completion questionnaires on a variety of subjects.

The response rate from qualifiers, i.e., those who said they were beneficiaries of a spouse's benefit, was 81%. The results reported here have been weighted to reflect the known proportions of male and female beneficiaries by province. We have no reason to believe that the results are biased in any respect that is likely to affect the usefulness of the profile or the interpretation of opinions with respect to CPP policy issues. We note, however, that the achieved sample may be somewhat better educated than the true population of SBs and may somewhat over-represent females with previous employment income.[12]

Reflecting the numbers presented in Exhibit IV-1, the majority of respondents to the survey are women: about a third are between the ages of 65 and 74 and fully 41% are 75 years of age and over.

Following is a profile of these female survivors:

- 90% are widowed; 8% are remarried, with an additional 1% remarried then separated or divorced.
- 74% graduated from high school or achieved a higher level of education.
- 93% live in adult-only households.

- 75% live alone.
- 18% were employed (full-time or part-time) in 1995.
- the average number of years married to their spouse was 34.9 years.
- 73% own their home (with no mortgage); 18% rent, of whom about one-quarter are in receipt of a rent subsidy.
- only 5% received a mortgage insurance benefit following death of spouse.
- for many, mortgage insurance was not applicable because they already owned their home.
- 60% received life insurance following the death of a spouse.

Younger survivors (those under 45 years of age) were somewhat more likely to report receiving mortgage insurance or to say that the question was not applicable because they did not have a mortgage.

B. Significance of Survivor Benefits in Total Family Income

1. *Introduction*

   In looking at the original rationale for the CPP, we have noted that survivor benefits were designed to give a measure of earnings replacement in the event of the CPP contributor's death. The evaluation is expected to assess the extent to which survivor benefits are needed or whether they provide adequate coverage and benefit levels.

   This chapter provides survey-based information on survivors' **perceptions** of the adequacy of their household income after the death of a spouse. However, we first address the issue of the coverage and level of survivor benefits by looking at the ratio of CPP survivor benefits to personal income and then the ratio of Survivor Benefits (SB), i.e., SSP plus Orphan's Benefits, to family income. Greater values of the ratio or the proportion represented by SB indicate greater dependence on CPP survivor benefits as a source of income. This, in turn, can be thought of as an indication of greater need or relevance of such benefits. We have already established that the average monthly benefits are quite low. The issue is: for whom are these relatively small benefits more significant as a proportion of all available family income? To what extent are they significant?

   In this section, we address this issue from four sources: HRDC administrative data, the T1 Family files (T1FF), results of a survey of beneficiaries, and a series of simulations.

2. *Contributions of Benefits to Personal Income - A Perspective from HRDC Administrative Data*

   Whether viewed by gender (Exhibit IV-4) or by age group, annual total incomes of recipients of Surviving Spouse's Pensions, when expressed in 1996 dollars, have remained quite stable since 1977.

   EXHIBIT IV-4 Average Annual Total Income (1996$), by Gender

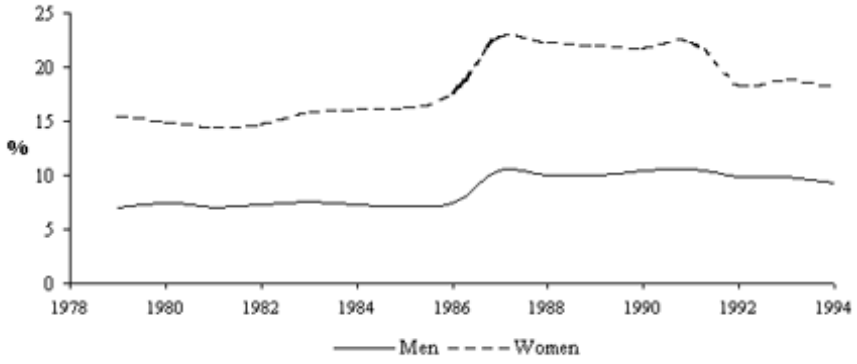
   Source:HRDC Longitudinal Labour Force Data Base.

   Overall, the contribution of the Surviving Spouse's Pension to beneficiaries' incomes has also remained fairly stable over the past several years. Exhibit IV-5 shows the average percentage of total personal income accounted for by this benefit, for women and men, over the period 1979 to 1994.

   One exception to the overall trend occurred because legislative changes that took effect in 1987 resulted in increased benefit levels and a corresponding jump in the proportion of income attributable to the benefit. For women, the proportion before 1987 had held steady at around 16 per cent, then jumped to about 22 per cent in 1987. For men, the jump in 1987 was from about seven per cent to ten per cent. The percentage overall for men has been about half that for women because surviving male spouses tend to receive lower benefits and have higher incomes.

   The proportion for women dropped in the period 1992 to 1994, to about 18 per cent. The cause of this drop is unclear, but it is notable in that a similar pattern has not occurred for male beneficiaries. Without further analysis, it is not clear why these changes occurred. Combined benefit restrictions were made less stringent in 1987, but it is not clear that this fully accounts for the trends.

   EXHIBIT IV- 5 Average Percentage of Income Accounted for by SSP, by Gender



Source:HRDC Longitudinal Labour Force Data Base and CPP Master Benefits File.

Legislative changes to the Canada Pension Plan increased the levels of Orphans' Benefits in 1992. To the extent that such benefits were claimed as income by the surviving spouse, income would increase relative to the Surviving Spouse's Pension and lead to a corresponding fall in the proportion of income represented by SSP. The observed drop in proportion in 1992 occurred mainly in the younger age groups, lending support to the hypothesis that changes to the level of Orphans' Benefits were responsible for the drop.

A trend perspective on the relationship of SSP to personal income is provided by looking at cohorts of survivors beginning to receive benefits. This analysis shows:

- Reliance on SSP peaked in the late 1980s but has since declined.

Legislative changes to CPP in 1987 caused a temporary increase in the proportion of personal income accounted for by SSP. The proportion has since decreased, slightly for males but quite markedly for females. For females, the peak occurred at 23 or 24 per cent, but the proportion has since dropped to about 18 or 19 per cent.

- Reliance on SSP does not vary much in the five years after starting SSP.

The data for each cohort of beneficiaries showed very slight fluctuations (usually only a few percentage points), but no consistent trend. Some cohorts appear to have reduced their dependency on SSP benefits over time while for others the dependency increases.

- Other CPP benefits reduce the gap between women and men.

Considering the contribution of all CPP benefits to income, the patterns for male and female beneficiaries are not so dissimilar. In the mid-1980s, women depended more than males on all CPP benefits combined. But both before and since that time, the percentage of income accounted for by CPP benefits has not differed between men and women by more than two or three percentage points and has often been closer than that.

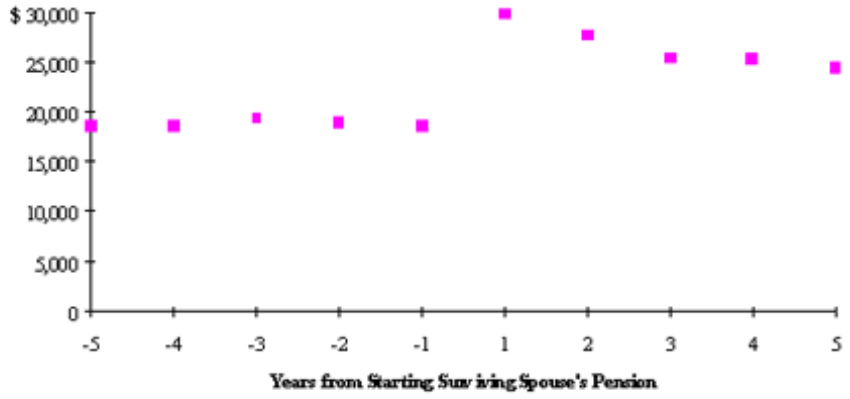
Given the relatively older age of most recipients of SSP, this similarity suggests that men rely more on Retirement Pensions (as opposed to Disability Benefits) than do women, likely due to men's traditionally higher rate of contributions. For the same reason, female surviving spouses receive greater SSP by virtue of their deceased husbands' higher contributions.

3. *Relationship of Personal Income to Start of Benefits*

As part of this evaluation we examined average annual total incomes for recipients of a Surviving Spouse's Pension. The analysis reveals a different pattern when compared to the other labour force indicators. Although the trend over time is not as consistent as was the case for the other indicators, there is clear evidence that total annual personal incomes were generally **higher** after the start of survivor benefits, especially so for female beneficiaries.

Exhibit IV-6 shows the average income for female beneficiaries who started to receive Surviving Spouses Pensions in 1988. This exhibit shows that their incomes have remained fairly stable over time, with perhaps a slight downward trend. The interest here lies in the jump in income levels associated with the death of a spouse and starting to receive benefits from the Surviving Spouse's Pension, and perhaps from other sources as well, such as a survivor's benefit related to a spouse's employer-provided pension.

EXHIBIT IV-6 Average Income Per Year (1996 $), for Women Starting Benefits in 1988



Source:HRDC Longitudinal Labour Force Data Base and CPP Master Benefits File.

Examination of the effect of coming into receipt of an SSP or other pension-related income is only a part of the picture, however. To appreciate the full effect, one needs data on the extent of income **replacement** of family income **prior** to receipt of SSP that, of course, includes the earnings of the now deceased spouse. This is examined later.

The question can still be asked whether there is a need for spousal survivor benefits when the surviving spouse is working? To answer this question, we rely on assessment of the proportion of income accounted for by CPP survivor benefits as an indicator of need for benefits and compare its values by level of employment of the surviving spouse. Since the question is most salient with respect to women, our analysis focuses on females only.

The analysis examined, by year, both the stock of current beneficiaries and cohorts of beneficiaries who started receiving Surviving Spouse's Pensions that year. [13]The first step was a simple comparison of the average proportions of income accounted for the Surviving Spouse's Pension among female recipients who had no employment and those who were employed at least one week in the year. Not having employment is composed of two factors: being unemployed and not being in the labour force. For simplicity, we refer to these persons as unemployed.

For the most part, we found the differences between the proportions of income contributed by SSP benefits for employed and unemployed female beneficiaries were between three and five percentage points, with less frequent differences both higher and lower than this range. But the average proportion of income accounted for by SSP benefits was less for employed beneficiaries throughout. This finding suggests that employed female beneficiaries rely less on SSP benefits as a source of income, although the differences are slight.

For those who were **employed**, we pursued this analysis further by using regression models to assess the effect of additional weeks of employment on the proportion of income accounted for by SSP benefits. The analysis involved six models, one for the current stock of beneficiaries, and one for data from each of the five years after starting benefits.[14]

These results indicate that employed female beneficiaries generally receive a distinctly higher proportion of their income from SSP benefits and that each additional week of employment reduces the proportion by one-fifth to one-quarter of a percentage point. The model would lead one to expect that a beneficiary who was employed 30 weeks, for example would rely on SSP benefits for somewhere between 2.1 and 2.4 per cent less of their income than would be the case for a similar beneficiary who was employed for only 20 weeks. (The difference of ten weeks of employment is multiplied by the estimated coefficient for the variable weeks employed.)

In a sense, these findings come as no surprise. Beneficiaries who are employed might be expected to have higher incomes than those who are not, whether the latter are unemployed, retired, or on welfare. Therefore, they should derive a relatively smaller proportion of their total incomes from the Surviving Spouse's Pension. In any case, the observed differences in this proportion that are related to employment, while often consistent and statistically significant, seem not very large in relation to the average proportion. Evidence suggests that employed beneficiaries differ from those with no employment income with respect to the significance of benefits, but not greatly. There is, therefore, little justification for considering changes to the benefit structure or other changes to the program to accommodate such differences.

4. *Evidence from the Survey of Beneficiaries of Surviving Spouse's Pensions*

A major objective of the survey of beneficiaries using the Canadian Family Opinion panel was to establish the relative importance of the Surviving Spouse's Pension in relation to the entire household income of the recipient. We have noted above that relatively few survivors were married or living common-law (8% of females) and relatively few were employed

in 1995 (18% of females). We may expect, therefore, that employment income in 1995 from a new spouse or from their own employment will be a factor for only a minority of female beneficiaries. Other sources of income can be expected to vary.

Exhibit IV-7 shows the sources of household income in 1995 reported by female panelists. In this exhibit the data are presented for female survivors less than 65 years of age and survivors 65 years of age and older.

The exhibit shows that, in order of frequency reported, the five top ranking sources of household income for all female survivors other than Surviving Spouse's Pensions (which by definition all respondents reported) are:

- OAS/SPA/GIS 77%
- Investment income 69%
- Refundable Tax Credits 61%
- CPP Retirement benefit 48%
- Company pension 45%

The Refundable Tax Credit and Employment Income (not necessarily their own) were the most frequently reported other sources of household income for pre-retirement women. For post-retirement women, OAS/ SPA and the Refundable Tax Credit, and CPP Retirement benefits were the most frequently reported. Orphan's Benefits were mentioned only in multiple person households with survivor beneficiaries under age 65.

EXHIBIT IV-7 Sources of Household Income by Age Females Only

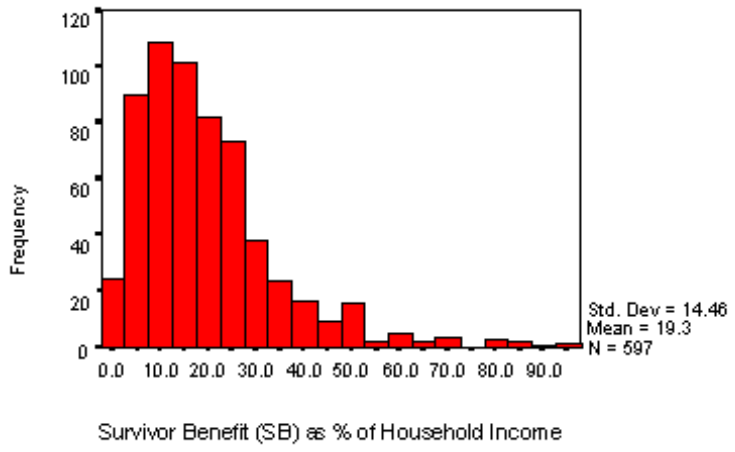
	Age		
Sources of Household Income	<65	65+	Total
	%	%	%
Employment Income	60.5	15.2	27.8
OAS/SPA/GIS Income[1]	29.1	94.8	76.6
CPP Retirement Benefits	23.3	57.5	48.0
CPP Disability Benefits	10.6	1.9	4.3
CPP Surviving Spouse's Pension	100.0	100.0	100.0
CPP Orphan's Benefit	16.7	0.0	4.6
Company Pension Income	36.8	47.7	44.6
U.I. Benefits	9.9	2.8	4.7
Investment Income	57.9	73.4	69.1
Rental Income	9.6	4.0	5.5
Alimony or Maintenance Income	1.4	0.3	0.8
RRSP Income	14.8	27.6	24.0
Social Assistance Benefits	9.3	2.9	4.7
Worker's Compensation	4.2	2.0	2.6
Other Income	9.8	13.3	12.3
Refundable Tax Credit	62.2	60.7	61.1

Source: Survey of Beneficiaries, CFO Panel.

Note: Percentages and totals based on respondents; five cases did not respond to any of the questions on sources of income.

Exhibit IV-8 shows the distribution of a key analysis variable Survivor Benefit as a Percentage of Total Household Income which we will call "Proportion"[15]for female beneficiaries only. The average (mean) proportion is 19.3% of Total Household Income.

EXHIBIT IV-8 Distribution of "Proportion" for Female Survivor Beneficiaries Only



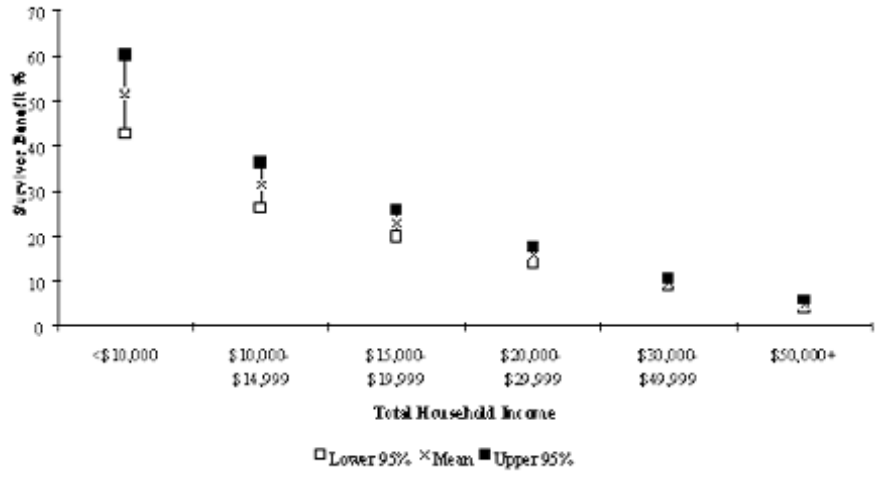
Source: Survey of Beneficiaries, CFO Panel.

Analysis of detailed tables (not shown here) on the distribution of Proportion indicates that the Survivor Benefit **represents less than 25% of total household income for as much as 74% of female SBs**[16].

Exhibits IV-9 and IV-10 show the distribution of "Proportion" separately for females under and over age 65, respectively, displaying the relationship with total household income. This presentation focuses attention on the "pre-retirement" and "post-retirement" survivors. Each exhibit shows, for various levels of total household income, the average value of "Proportion" as well as the 95% confidence limits for each such average.[17] Both exhibits show the expected relationship (since the Surviving Spouse's Pension can never exceed a fixed annual limit), that "Proportion" is lower where total household income is higher. The two graphs are quite similar with respect to households with over $15,000 in total income. Below that level, however, female survivor beneficiaries **under age 65** report higher average values of "Proportion". This is likely the result of the presence of an Orphan's Benefit, which is of greater significance for those with lower levels of income.

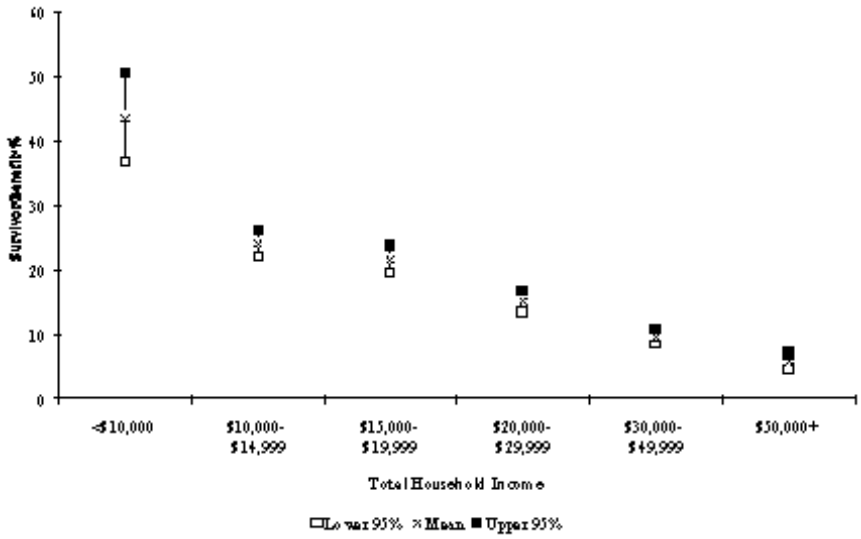
EXHIBIT IV-9 Survivor Benefits as a Percentage of Household Income Females Under 65

Years of Age



Source: Survey of Beneficiaries, CFO Panel.

EXHIBIT IV-10 Survivor Benefits as a Percentage of Household Income Females 65 Years of Age and Over



Source: Survey of Beneficiaries, CFO Panel.

For women with low household incomes for example, less than $20,000 per annum Survivor Benefits represent a very substantial contribution to the total. This is true for both pre- and post-retirement survivors.

5. *T1 Family Files Another Perspective on Total Family Income*

Statistics Canada has linked taxation data for individuals into groups that approximate true census families. The resulting series of annual files is referred to as T1 Family Files (T1FF). We provided Statistics Canada with a set of specifications for linking data of recipients of survivor benefits with total family income from T1FF. Other CPP benefits were also taken into account.

The chief contribution of the T1FF analysis to this evaluation is to confirm the proportion of family income represented by SB derived from the survey results, and to show that the proportion represented by SB has not changed much since 1987, although it has increased somewhat for the lowest income groups. In addition, it provides an answer to the question of the extent to which either the Survivor Benefit or SB plus other CPP income replace family income of the year prior to the death of the spouse.

The data for the three years selected 1987, 1990 and 1993 (the last for which full data were available yield a very large number of tables for analysis. Breaks were calculated by gender, age group, duration (years in receipt) of CPP benefits; family size and family composition. For purposes of this report, we focus on the results for women only and pay particular attention (as we did for the survey data) to women 65 years of age and older.

Exhibit IV-11 shows the distribution of Proportion 1 (Survivor Benefits/Family Income) and Proportion 2 (Survivor Benefits plus other CPP Income/Family Income) for all female beneficiaries in 1993. In Proportion 1, Orphan's Benefits are included where applicable thus making Proportion similar to that reported in Exhibits IV-8 to IV-10. Other CPP-based sources such as Disability Benefits and CPP Retirement Pension are included in Proportion 2.

The 1993 results, which show that "Proportion 1" for women with family incomes of $5,000-$7,499 averages 53%, are quite comparable to those shown in Exhibits IV-8 to IV-10 (from the survey results). The exhibit also parallels the data shown there for 1996 for higher levels of family income. Proportion 1 declines rapidly from 14% for family income of $20,000 to $24,999 to a low of 5% for family income in excess of $50,000 per annum. Proportion 2, that includes more CPP based income, is by definition consistently higher than Proportion 1. However, it too tails off to a low figure (7%) for those whose family income per annum is $50,000 or more.

Other observations from Exhibit IV-11 are of relevance:

- over the range of income groups for females, the average CPP survivor benefit (column 3) is somewhat curvilinear, with highest average values at the lowest and highest ends. The slight upward trend from the $10,000 to $12,000 range may reflect an increase in the stability of contributions to CPP by the deceased spouse and, therefore, somewhat higher survivor benefits. The high average values at the low end of the income range may reflect non-working wives of higher earning contributors.
- the trend from low to high other CPP income (column 5) follows the expected pattern, where those with higher incomes have higher total CPP benefits, likely reflecting the higher contributions/incomes of their now deceased spouses.

	Families in Which One or More Persons

Income Group	Total Income	CPP Survivor Benefit	Proportion 1 Survivor Benefit/Income	Other CPP (avg.)	Proportion 2 Total CPP/Income	Received SB	Received Other CPP
			%		%		
$0-4,999	2,632	3,821	-*	0	-	460	0
$5,000-7,499	6,390	3,335	53	0	0**	500	0
$7,500-9,999	8,995	3,275	37	1,946	41	1,230	240
$10,000-12,499	11,584	2,538	22	1,417	25	7,760	2,080
$12,500-14,999	13,634	3,002	22	2,391	31	9,380	4,750
$15,000-17,499	16,125	3,119	19	3,199	30	4,950	2,690
$17,500-19,999	18,728	3,098	17	3,479	27	3,570	1,940
$20,000-24,999	22,400	3,101	14	3,597	22	5,860	3,110
$25,000-29,999	27,392	3,195	12	3,758	19	4,370	2,220
$30,000-49,999	38,400	3,373	9	3,928	14	9,450	4,200
$50,000	79,715	3,702	5	4,096	7	6,760	2,330
Source: T1FF and CPP Master Benefit File.							

*Because total income is net of losses, it can be very small or even negative. Values less than $1 were converted to $1 for purposes of calculating the ratio, which led to uniformatively large values for the $0-$4,999 income group.

**This entry has been rounded to 0 under Statistics Canada's "residual disclosure" rule that protects confidentiality when small numbers appear in a table cell.

Exhibit IV-12 shows trends in Proportion 1 for females 65 years of age and older for 1987, 1990 and 1993. The downward level in proportion as family income increases is similar for all years to the pattern in Exhibit IV-10. The percentage of income represented by SB is slightly lower among post-retirement women than for all women. This is likely the effect of the flat rate component for pre-retirement SBs as was noticed for other data as well. The trend over time is for the ratio of SB to Total Family Income to increase. This is especially evident for those in the lowest income groups.

	1987		1990		1993	
	Proportion 1	Proportion 2	Proportion 1	Proportion 2	Proportion 1	Proportion 2
	%	%	%	%	%	%
$0-4,999	-*	-	-	-	-	-
$5,000-7,499	31	35	27	0	36	0
$7,500-9,999	24	34	24	28	29	32
$10,000-12,499	19	29	20	25	20	22
$12,500-14,999	15	25	18	28	21	30
$15,000-17,499	13	22	16	25	18	30
$17,500-19,999	11	19	13	22	15	26
$20,000-24,999	9	16	11	19	12	23
$25,000-29,999	5	13	9	16	10	19
$30,000-49,999	5	10	7	12	7	14
$50,000+	3	5	3	6	4	8

Source: T1FF and CPP Master Benefit File.

*Because total income is net of losses, it can be very small or even negative. Values less than $1 were converted to $1 for purposes of calculating the ratio, which led to uniformatively large values for the $0-$4,999 income group.

Exhibit IV-12 also presents data on Proportion 2, and here the pattern over time exhibits some differences from that observed for Proportion 1:

- at average family incomes below $12,449 there has been no upward trend in Proportion 2 over the three years observed; in fact, there has been a decline.
- above that level of family income, the trend is upward in all cases and the percentage point difference between the Proportion 1 and Proportion 2 has tended to **widen** with time.
- the latter effect is likely the result of greater average values of the retirement benefit appearing in the CPP income for higher income women, as more retire with pensions than in 1987.

Exhibit IV-13 offers a slightly different perspective on the significance of SB. To this point we have examined the "stock" of beneficiaries of SB in each of the three years. Next we present data on the flow or the **new** recipients of survivor benefits.

The exhibit shows the proportion of family income reported in 1987, 1990 and 1993 that was "replaced" by SB (Surviving Spouse's Benefit and Orphan's Benefit) and by SB plus other CPP sources where payment of SB began in 1988, 1991 and 1994.

EXHIBIT IV-13 Replacement of Family Income by SB or SB Plus CPP All Females Who Started Receiving SB in 1988, 1991, 1994

	Year Income Reported					
	1987		1990		1993	
Income Group in Year Income Reported	SB/Income	SB + CPP/ Income	SB/Income	SB + CPP/ Income	SB/Income	SB + CPP/ Income
	%	%	%	%	%	%
$0-9,999	-*	-	-	-	-	-
$10,000-14,999	22	28	23	30	26	33
$15,000-19,999	17	22	18	24	17	20
$20,000-29,999	12	17	14	18	14	19
$30,000-49,999	9	11	9	13	10	15
$50,000+	5	6	5	7	6	8

Source: T1FF and CPP Master Benefit File.

*Because total income is net of losses, it can be very small or even negative. Values less than $1 were converted to $1 for purposes of calculating the ratio, which led to uniformatively large values for the $0-$4,999 income group.

The conclusions we draw are the same as for Proportion 1: above annual incomes of $15,000 SB by itself replaces less than 20% of income and the result is similar in all three years studied. Below $15,000, the replacement value of SB has grown over the three time periods examined.

6. Simulation Results Using MAPSIT

a.Introduction

As an additional perspective on the issue of the significance of SB in total family income, we used MAPSIT[18] to produce a number of simulations to show how "Proportion" varies under a variety of hypothetical but realistic conditions. The difference between these results and those reported earlier from the survey is that survey respondents told us what proportion SB represented of **gross** family income; MAPSIT results describe the contribution of SB **net of taxes and other transfers**.

To assess a wide range of possible results, we canvassed a number of scenarios: single seniors, young widows with children, and pre-retirement widows with no children each with no benefits; one-half the maximum Surviving Spouse's Pension; and at the maximum survivor's pension. The analysis examined the effect of SB on disposable income while allowing income from other sources to vary from $0 to $100,000. A second set of scenarios included eligibility for social assistance or GIS to see what the net effect would be on family income.

We concentrate on the results for the single seniors because, as we have seen, this is by far the predominant group of beneficiaries. We also examine closely the results for the young widow with children on social assistance. In general, the contribution of CPP Survivor Benefits to a household's disposable income seldom exceeded 20%.

b. The Single Senior Scenario

The single senior scenario examines the results for a hypothetical individual with the following set of characteristics:

- a widowed female, age 72, living alone in Ontario in 1996 in a one-bedroom apartment with rent at $660 per month.
- income from private pensions and investments; OAS/GIS; GST Tax credit, Guaranteed Annual Income Supplement top-up to GIS, and provincial income tax credits for property and sales taxes.[19]

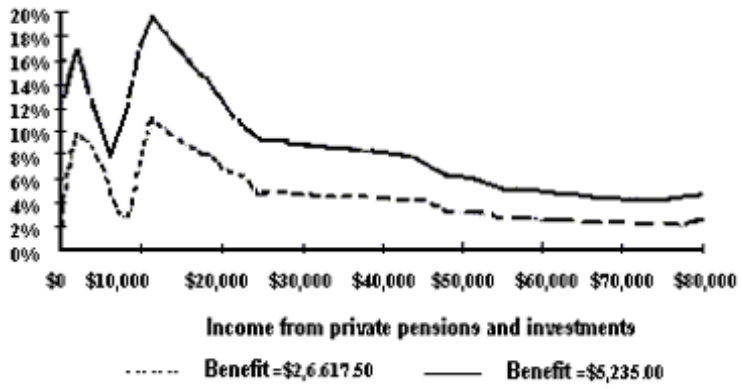
The analysis examines the effect on disposable income of the addition of two different levels of CPP survivor benefits while allowing income from private pensions and investments to vary. The first $1,000 of the latter is assumed to be private pension income, and therefore not subject to tax.

With a maximum benefit of $5,235, the greatest increase in disposable income is $3,802 (or 73 per cent of the gross survivor benefit), when private pension and investment income is between $11,305 and $12,014. At half the maximum benefit ($2,617.50), the greatest increase is $1,901 (also 73 per cent of the gross survivor benefit), which occurs over a broader range of private pension income: between $11,305 and $14,631.

Exhibit IV-14 shows the change in disposable income as a percentage of the gross benefit, by level of benefit for the single

senior scenario where the beneficiary is eligible for GIS. This exhibit addresses the main issue surrounding the analysis: the value of the CPP survivor benefit to the household's income. It considers the **net** CPP survivor benefit, after adjusting for the effects of transfers, and displays it as a percentage of the household's **disposable** income.

EXHIBIT IV-14 Percentage Net Change in Disposable Income By Level of Benefit, Single Senior Scenario



Source: MAPSIT Simulation.

We see that the CPP survivor benefit (that is the change in disposable income due to SB) accounts for at most about 20 per cent of the disposable income of this hypothetical type of household. This level is approached if private pension income is in the area of $12,000 and is available only if the household receives the maximum CPP survivor benefit. Elsewhere in the distribution of private pension income, the contribution to disposable income remains well below this level. If the household receives only half the maximum CPP survivor benefit, the greatest level of contribution to household income is 11 per cent, which occurs at a private pension income of about $11,500.

For both benefit levels, the increase in disposable income attributable to CPP survivor benefits declines gradually above $15,500 of other income, due to higher rates of taxation. The exhibit also shows that over a certain range of relatively low incomes, the increase in disposable income was (perhaps) unexpectedly low. If the household receives private pension income of about $6,170, however, its disposable income increases by much less (only 8%). Within the range of private pension income surrounding this value, and in the presence of the survivor benefit, the household is not eligible for the provincial (GAINS) top-up to GIS, the GIS benefit is greatly reduced, and income is subject to both federal and provincial income taxes to an extent that is not the case in the absence of the CPP survivor benefit. A similar pattern occurs for households receiving half the maximum benefit (an increase in disposable income of only 3%).

The above findings must be considered in relation to the likelihood that the conditions underlying this example would occur in practice. To assist this determination, the distribution of average gross family income of female survivors over the age of 65, drawn from the T1FF data file, is shown in Exhibit IV-15.

EXHIBIT IV-15 Distribution of Total Family Income for Females 65 Years of Age and Older 1993

Income Range	Distribution %	Number
$0-4,999	0.84	460
$5,000-7,499	0.92	500
$7,500-9,999	2.43	1,230
$10,000-12,499	14.3	7,760
$12,500-14,999	17.3	9,380
$15,000-17,499	9.1	4,950
$17,500-19,999	6.6	3,570
$20,000-24,999	10.8	5,860
$25,000-29,999	7.6	4,370
$30,000-49,999	17.4	9,450
$50,000	12.5	6,760
Total	99.7	54,290

Source: T1FF.

The point of maximum change in disposable income as a result of SB occurs at approximately $12,500 of personal private pension income, as shown in Exhibit IV-14. Taking into account OAS and CPP, this amount likely corresponds to about $20,000 in total family income. From Exhibit IV-15 we see that about one quarter of the 65+ female survivors fell into the **family income range** of $15,000 to $24,999 in 1993. This information leads to a conclusion that for most post-retirement

women SB is not of major significance. Even for the one in four at low incomes for whom it is important, it does not exceed 20% of total income.

c. Scenario Involving Single Parent With Two Children on Social Assistance

In this scenario we examine the effect of SB on incomes of pre-retirement women with children.

The household used in the scenario consists of a widowed female, age 33, with two children, ages 7 and 3, living in Ontario in a three-bedroom apartment. Total income, in current dollars includes:

- Earnings (income from employment).
- Child tax credits.
- GST credit.
- Provincial income tax credits.

The analysis then examined the effect of no SB; one half the maximum SSP and two Orphan's Benefits; and the maximum SSP and two Orphan's Benefit, assuming different levels of earnings.

The presence of children in the household has a dramatic effect on the extent to which the SB increases what we term consumable income (disposable income less child care expenses). Analysis that compares scenarios with and without social assistance helped to isolate an unexpected result: when family earnings fall below $33,000 and especially between $14,000 and $20,000 the contribution of SB to household income is mostly negated by the presence of social assistance. In extreme cases, because of federal and provincial taxes paid, consumable income actually decreases as a result of the receipt of SB when the family is eligible for social assistance. In other words, the family would receive more total income through social assistance than through SB.

How many cases in reality fit this modelled scenario? First, consider that earnings of $14,000 to $20,000 likely imply total income of perhaps $20,000 to $30,000, when tax credits, U.I. benefits, and other forms of income are considered. Exhibit IV-16 shows the distribution of single parent households under the age of 65. Among such SB recipients, 42% have incomes of less than $30,000 and about 17% fall into the critical range, where the presence of social assistance has its greatest impact.

As a means of ensuring basic economic support levels for pre-retirement survivors of deceased CPP contributors who are eligible for social assistance, SB has little or no value over a range of household incomes that included many, although not a majority of, such households.

EXHIBIT IV-16 Distribution of Total Family Income for Single Parent Households SBs Under the Age of 65

Total Family Income Range	Distribution %	Number
$0-4,999	3	180
$5,000-7,499	2	90
$7,500-9,999	3	160
$10,000-12,499	4	210
$12,500-14,999	4	240
$15,000-17,499	5	260
$17,500-19,999	4	240
$20,000-24,999	9	500
$25,000-29,999	8	470
$30,000-49,999	29	1,600
$50,000+	29	1,630
Total	100	5,580

Source: T1FF.

d. Conclusion

The contribution of CPP survivor benefits to household disposable income seldom exceeds 20%. One explanation for this may be that the effect of the CPP survivor benefit on disposable income is also very low, and sometimes negative, among survivors eligible for social assistance (or GIS) and income tax. If a household has a total income and assets such that it is eligible for social assistance (or GIS), the net change in disposable income that results from the CPP survivor benefit can be quite low because, without the CPP benefit, the household would receive an almost equivalent amount of social assistance. At the higher end of the range of such low incomes it can also happen that total income is large enough to be taxable. In this case, the household not only loses social assistance benefits equal to the CPP survivor benefit, but also pays taxes on the latter, resulting in a net **negative** contribution to disposable income.

We recognize that the interaction of CPP survivor benefits and social assistance programs may be oversimplified in the scenarios we have run. Although CPP survivor benefits contain an element of social insurance, they are nonetheless based on an earned entitlement, while social assistance is a source of last resort for income support and is tested by the value of assets as well as income. Also, the scenarios presented here include only two extremes: those fully eligible and those not eligible for social assistance. Substitutability between CPP survivor benefits and social assistance is likely less fluid than it appears here, and will be further affected by various "self sufficiency experiments" for SARs that are in effect.

Nevertheless, the phenomenon described is of interest and is described here as an anomaly of the program which is noteworthy.

7. Beneficiaries' Perceptions of the Adequacy of Current Household Income

In the Survey of Beneficiaries of a Surviving Spouse's Pension, respondents were asked about the adequacy of household income both before and after the death of a spouse. For many survivors, a considerable number of years would have passed between the date of death of their spouse and their current recollections of the adequacy of the Death Benefit at that time. With respect to adequacy prior to the spouse's death, women responded as follows: "more than adequate" 14%; "adequate" 68%; "less than adequate" 17%; and 2% did not respond.

With respect to the adequacy of current income i.e., after the death of a spouse the pattern of response was: "more than adequate" 4%; "adequate" 59%; "less than adequate" 36%; and not stated 2%.

Exhibit IV-17 shows, for female survivors only, the relationship between perceptions of household income before and after the death of the spouse. Examination of the columns in the table show where change of status has occurred: 29% of those with "more than adequate" pre-death income now say that their household income is less than adequate; 33% of those with previously "adequate" income now regard their income as "less than adequate."

Predictably, the largest group of respondents among those with previously less-than-adequate income fall into the less-than-adequate category (54%) after the death of a spouse. Numerically, however, the largest portion of the female survey respondents with current household incomes perceived to be less-than-adequate are women whose income prior to the death of the spouse was regarded as "adequate." This group represents 22% of the sample of female beneficiaries.

EXHIBIT IV-17 Perceived Adequacy of Household Income, Before and After the Death of a Spouse Female Survivors Only

		Perceived Pre-Death Income Adequacy		
Perceived Adequacy of Current Income	Total	More than Adequate	Adequate	Less than Adequate
	N = 748	**N = 103**	**N = 506**	**N = 126**
	%	%	%	%
More than adequate	4	19	2	0
Adequate	59	51	64	45
Less than adequate	36	29	33	54
Not stated	2	*	*	*
Total	101	99	99	99

Source: Question 7 and Question 10, Survey of Beneficiaries CFO Panel, 1996; 13 respondents did not reply to the questions.

Who are the women who say their current household income is less than adequate? Data from the survey indicate that they are disproportionately numerous among:

- women who, after remarriage, have subsequently separated or divorced.
- women of pre-retirement age (<65).
- women with no or only primary school education.

C. Appropriateness of Eligibility Criteria for Survivor Benefits

The question is often asked whether changes in the participation rate of women in the labour force today (and expected into the future) compared with that prevailing at the time of the introduction of CPP Surviving Spouse's Benefits invalidates the current eligibility criteria.

To qualify for a benefit, the surviving spouse must:

1. be 45 or more years of age, or,
2. in the case of a surviving spouse who has not reached the age of 45,
. have, at the time of the death of the contributor, reached 35 years of age (in which case a pro-rata benefit is paid); or

b. have been, at the time of the death of the contributor, a surviving spouse with dependent children; or
c. be disabled.

The questioning of the current system directs attention to a few specific issues:

- on the assumption that most pre-retirement widows or widowers will be employed, should the survivor benefit be related to the income of the beneficiary?
- or looking at the same issue from a different angle should the benefit be related to the age, disability status or dependency situation of the surviving spouse (as it is now) or should younger spouses receive the same benefit as older survivors, regardless of whether they are under 35 years of age, have dependent children, or are disabled?
- should duration of benefits for spouses be tied to the duration of the union? Should ex-common-law partners and separated spouses (where there was subsequently a common-law partner) be eligible?

The evaluation has assembled data and opinions on most of these eligibility issues from a variety of sources: interviews with key informants and a panel of experts; the survey of survivors; a survey of the general public; and analysis of a series of simulations using the CPP Actuarial model.

1. Key Informant Interviews and the Expert Panel

Among key informants we interviewed, there was a strong disposition to state that the current eligibility rules for survivor benefits are inappropriate and that they have to be changed to keep pace with the changes in Canadian society that have taken place since the CPP was introduced. But beyond this consensus, there was none on what changes should be made. A majority believed that survivors rely on the benefit for income and that benefits should not be related to the employment/income of the survivor.

The expert panel observed that if the flat rate component of SSP were to be eliminated, all payments would be related to earnings of the deceased contributor and the eligibility criteria that have been established would not be required. That would, in itself, not deal entirely with the eligibility issue, however, as the current law defines eligible beneficiaries as: "a spouse of a deceased contributor or a person of the opposite sex who lived in a marital relationship with the contributor before his or her death." Some experts saw the recognition of same sex partnerships to be inevitable. However, the broadening of the definition of spouse led to the observation that once eligibility is based on a "dependency relationship" it will be difficult to limit eligibility.

As for eliminating the flat-rate component, there was no strong support, particularly as it is paid mainly in support of families.

Experts also generally agreed that whether or not the surviving spouse is working, receipt of the survivor benefit is appropriate, since there is a need to support a period of adjustment to one income. Panelists differed, however, on the extent of the benefit, as they did on whether amounts of the benefit should vary according to the age of the surviving spouse. Some panelists suggested that the benefit should be uniform regardless of age, unless it was based on the presence of children; in which case it might be preferable to increase Orphan's Benefits and decrease or make uniform the spousal benefit for pre-retirement spouses.

The expert group was unanimous that any move to cease paying survivor benefits on remarriage of the surviving spouse would be retrograde. This provision was introduced into the CPP to protect women's economic autonomy, and calls to cease benefits played into stereotypes that the number of remarried beneficiaries of the Surviving Spouse's Pension is significant a contention which the 1987 and 1996 Surveys of Survivor Beneficiaries show is not so. The latter survey found less than 10% were remarried.

2. Public Opinion on Eligibility

Both current beneficiaries of the Surviving Spouse's Pension and the general public were asked a series of questions on eligibility for SB. We first examine the five opinion items that were common to both surveys.[20] In interpreting the results, we consider that a position lacks support if the largest proportion in the answer categories is less than 55%. Because we considered some of the questions to be difficult and perhaps not of interest to many respondents, we offered a "No Opinion" response category. This allowed respondents, who otherwise might have felt constrained to choose among reasons when in fact they had no view, to indicate that they had no opinion. In analysing the results we do not repercentage the responses omitting the "Don't Knows." Rather, for a view to be considered to enjoy majority support, it must be held by at least 55% of the respondents, including those with no opinion.

Survey respondents were clearly divided on three eligibility-related questions:

- relating SSP eligibility to the age of the survivor.
- relating SSP to the duration of the union.
- allowing both common-law partners and the separated spouse to be eligible for a portion of the SSP.

In general, the level of no opinion is higher in the survey of beneficiaries than it is in the general population survey. We conclude from Exhibit IV-18 that there is no clear support for eligibility changes on the three aspects noted from the perspective, at least, of general public opinion and that of current survivors.

With respect to relating benefits to the duration of union, a complex gender/age result occurs: older males and females in the general population and male and female survivors think benefits should be linked to duration of the union, whereas both females

and males in the 25-44 age group are more inclined to oppose the linkage with duration.

Exhibits IV-19 and IV-20 compare the responses of male and female survivors with those of the 25-44 sample and the 45 and older sample of the general public, on two other eligibility issues relating SB to the level of the survivor's income and the impact of remarriage on eligibility.

There is slightly more support for relating SB to survivors' income in the general population than among the current beneficiaries. However, respondents in the general population surveys are quite divided. No age or gender differences appeared in the pattern of responses in the 25 to 44 sample, the 45 and older sample or the survivor's survey.

On the latter opinion question, a strong majority emerged in the general population surveys for a change in eligibility from the status quo. A significant majority of both the 25-44 sample and the 45 and older sample think that if a surviving spouses remarries he/she should **not** receive a survivor benefit. Again, there were no age or gender differences among the general population respondents. A gender difference arises among survivors, however. A majority of males favoured the status quo whereas female survivors were divided.

EXHIBIT IV-18 Views of Respondents on Three Eligibility Issues Survivor Beneficiaries and General Population By Gender and Age

a)Age of Surviving Spouse

Some people say that younger surviving spouses should receive the same benefit as older survivors. Others prefer the current eligibility criteria. What is your opinion? (Circle One Answer.)

	Females			Males		
		General Population			General Population	
	Survivor	Age		Survivor	Age	
	Beneficiaries	25-44	45+	Beneficiaries	25-44	45+
	%	%	%	%	%	%
Surviving spouse's benefits should not on the age of the survivor	36.6	54.8	30.9	31.2	40.8	26.5
Current eligibility criteria should be continued	43.1	42.2	61.9	59.2	51.9	64.7
No Opinion/Not Stated	20.3	3.0	7.2	9.7	7.3	8.8
Total	100.0	100.0	100.0	100.1	100.0	100.0

Source: Q.6 General Population Survey; Q.19 Survey of Beneficiaries.

b)Duration of Union

Under the current eligibility criteria for a CPP Surviving Spouse's Pension, benefits are payable to the surviving spouse or to a common-law partner if he or she had lived with the deceased contributor for at last one year immediately prior to death. Some people say that the benefit should be related to the duration of marriage (or period of co-habitation) to the contributor. What is your opinion? (Circle One Answer Only.)

	Females			Males		
		General Population			General Population	
	Survivor	Age		Survivor	Age	
	Beneficiaries	25-44	45+	Beneficiaries	25-44	45+
	%	%	%	%	%	%
Benefits should be related to the duration of marriage/co-habitation to the contributor	52.7	42.2	58.0	31.2	40.8	26.5

Benefits should not be related to the duration of marriage/ co-habitation to the contributor	23.1	50.9	33.7	59.2	51.9	64.7
No Opinion/Not Stated	24.2	6.9	8.3	5.9	8.5	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.1*

Source: Q.7 General Population Survey; Q.20 Survey of Beneficiaries.

*Due to rounding.

EXHIBIT IV-18 Views of Female Respondents on Three Eligibility Issues Survivor Beneficiaries and General Population (cont'd)

Q.21Treatment of Separated Spouses

Under the current eligibility criteria for a CPP Surviving Spouse's Pension, separated spouses (formerly married to the contributor) are not eligible for a survivor benefit if there is an eligible common-law partner who had been living with the contributor for at least one year prior to the contributor's death. Some have suggested that the common-law partner and the former spouse should both be eligible for a portion of the one survivor benefit. What is your opinion? (Circle One Answer Only.)

	Females			Males		
		General Population			General Population	
	Survivor	Age		Survivor	Age	
	Beneficiaries	25-44	45+	Beneficiaries	25-44	45+
	%	%	%	%	%	%
Both the separated spouse and the common-law partner should be eligible for a portion of the single survivor benefit	24.1	30.2	34.8	11.8	29.1	25.3
Only the common-law partner should be eligible for a survivor benefit	13.7	29.3	12.4	39.5	24.5	20.6
Only the separated spouse should be eligible for a survivor benefit	15.5	13.1	19.4	8.1	13.2	17.0
Neither the separated spouse nor the common-law partner should be eligible for a survivor benefit	19.7	17.5	19.7	30.3	26.6	24.3
No Opinion/Not Stated	27.0	9.9	13.8	10.4	11.6	12.7
Total	100.0	100.0	100.0	100.1	100.0	99.9

Source: Q.8 General Population Survey; Q.21 Survey of Beneficiaries.

EXHIBIT IV-19 Relating Eligibility to the Level of the Survivor's Income
Comparison of Survey Results

CPP Surviving Spouse's Pension benefits currently depend on the deceased contributor's level of contribution to the Canada Pension Plan and are not related to the survivor's income. Some people say that the Surviving Spouse's Pension benefit should depend on the survivor's level of income. What is your opinion? (circle one answer only.)				
			General Population Surveys Males and Females Combined	
	SB Survey		Age	
Responses	Females	Males	25-44 Sample	45 and Over Sample
	%	%	%	%
Benefits should be related to the survivor's income	36.0	38.0	45.2	43.3
Benefits should not be related to the survivor's income	52.0	60.0	49.1	51.5
No Opinion/Not Stated	13.0	13.0	5.7	5.2
Total	100.0	100.0	100.0	100.0

Source: Q12, General Population Survey; Q. 23, Survey of Beneficiaries, CFO Panel.

EXHIBIT IV-20 The Impact of Remarriage on Eligibility Comparison of Survey Results

Under the current system, re-marriage does not disqualify a person from continuing to receive the CPP Surviving Spouse's Pension from his/her previous spouse. Some people say that if the surviving spouse remarries, he or she should no longer qualify to receive the benefit. What is your opinion? (circle one answer only.)					
			General Population Surveys		
	SB Survey		Age		
Responses	Females	Males	25-44 Sample	45 and Over Sample	Age 65+ Sample
	%	%	%	%	%
If the surviving spouse re-marries, he/she should no longer qualify to receive a Surviving Spouse's Pension	41.0	29.0	66.6	65.9	65.9
If the surviving spouse re-marries, he/she should continue to receive a Surviving Spouse's Pension	46.0	67.0	26.5	27.7	27.7
No Opinion/Not Stated	14.0	4.0	6.8	6.5	6.5
Total	101.0	100.0	99.9	100.1	100.1

Source: Q10, General Population Survey; Q. 22, Survey of Beneficiaries, CFO Panel.

A few questions on SB eligibility were included in the general population surveys that were not included in the survey of beneficiaries. These yield the following findings:

- a significant majority of both the 25-44 sample and the 45 and older sample (69% overall) think that the CPP should not restrict pre-retirement benefits only to those with children or who are disabled. No gender differences were noted.
- a significant majority in both samples (74%) think that ex-common-law partners should not be eligible for a survivor benefit. No age or gender differences were noted.
- respondents were divided on the current rule that a married spouse who is separated at the time of the spouse's death should be eligible for a survivor benefit where there is no eligible common-law partner, with 53% favouring the status quo. No age

differences were evident overall, except that women 35 to 44 years of age were most inclined (65%) to say that separated spouses should be eligible for a survivor benefit.[21]

D. Summary

Nearly 90% of current survivors are women, most of whom are neither married nor employed. The average age of female survivors starting benefits has risen considerably in the last decade. There has been a dramatic increase in female beneficiaries over age 75.

The survivor benefit represents a significant proportion of household income for not more than one-fifth of the female survivors. Multiple lines of evidence confirm this conclusion. For low income women, those with $10,000 income or less, the benefit represents from 35% to 60% of total gross household income. Female survivors who perceive their current income to be less than adequate are disproportionately numerous among women of pre-retirement age and with little or no education.

The general public tends to be both restrictive and generous with respect to eligibility for benefits. They think that survivors who remarry should not receive a benefit, but they would open up eligibility for younger pre-retirement survivors beyond the disabled and those with children.

Experts and key informants think the current rules are, by and large, appropriate. Even on the more controversial pre-retirement eligibility rules, there is general acceptance of the income support aspects largely because the principle of income support for families overrides their dislike for a departure from the income replacement principle.

[8]William M. Mercer Limited, Benefits Legislation in Canada, 1996, Revised December 12, 1995. Back

[9]We have analyzed data from statistical tables generated as part of the operational processes of the CPP. Back

[10]This analysis comes from a merging of the Master Benefits File with HRDC's Longitudinal Labour Force Data Base. Back

[11]See Appendix B for details of the questionnaire and response rate for the Survey of Beneficiaries. Back

[12]This is to be expected, given that the CFO panel requires a level of literacy that, in itself, makes it somewhat different from the profile of all older Canadians. The proportion of female beneficiaries of a Surviving Spouse's Benefit (in 1 person households) who are in receipt of a combined benefit (i.e., from the SSP as well as a retirement or disability pension based on their own contributions) is 53%, compared to 44.5% in the population as of January 1996. See Section B-4 of Chapter IV for discussion of the various sources of survivors' income. Back

[13]Both groups include female SSP beneficiaries of all ages. Back

[14]Models were simply specified in each case, including a constant term, a dummy variable indicating whether the recipient was female, and a variable representing the number of weeks of employment in a given year. The models were quite consistent. Over the six models, the estimated regression coefficients varied little: · Constant term: roughly 17 to 20. · Female indicator: 4.1 to 6.6. · Weeks employed: -0.21 to -.24. Back

[15]To compute the variable, Survivor Benefit as a Proportion of Total Household Income ('Proportion'), we edited the data file as follows: · Eliminated cases for which there was missing data on either component of 'Proportion', for which reported survivor benefits exceeded reported total income (4 cases). · Limited the constructed proportion to values between 0% and 100%. · Combined Surviving Spouse's Benefit and Orphan's Benefit when the latter was applicable to create SB. Back

[16]When T1FF data are examined for 1993, we find that SB and other CPP income represented less than 25% of family income for 82% of female SBs. No conclusion about trends is warranted; this is likely the effect of some differences in the populations represented in the two data sources. Back

[17]The 95% confidence limits indicate a range of values outside of which the average of 'Proportion' would be expected to fall at most one time in twenty. Back

[18]MAPSIT (Modular Analysis Package for Systems of Income Transfer) is a computerized micro simulation model based on a flexible range of commands. While not a model itself, its commands can be used to build a model by conveying information to the system concerning both actual data and assumptions. Back

[19]For a full discussion of this and other scenarios, see our Technical Report: Results and Interpretation of Simulations Relating to the Surviving Spouse's Pension and Ancillary Features of the CPP. Back

[20]Minor wording changes in the 'statement' part of two questions were made for the second, i.e. the general population, survey. The answer categories were identical on all questions. See Appendix C for the details of the questionnaire and response rate to the Surveys of the General Public. Back

[21]Tables showing these and other survey results in more detail are available in two technical reports: Surveys of the General Public (1996); and Survey of Beneficiaries of a CPP Surviving Spouse's Pension (1996). Back

5. Objectives Achievement-The Appropriateness of Other Features of the CPP

A. Introduction

In Chapter 3 we considered the rationale for the Surviving Spouse's Pension and several other features of the CPP, with evidence from the literature review, international comparisons and the opinions of the expert panel and key informants. Here we add a perspective on adequacy or appropriateness of these features with the benefit of simulations of their effects and/or the opinion of survivors and the general public over 25 years of age on the two other components of survivor benefits the Death Benefit and the Orphan's Benefit. We then examine the evidence with respect to three other features of the CPP:

- general dropout provisions.
- child rearing dropout provisions.
- credit splitting.

B. Adequacy of the Death Benefit

In 1995, death benefit payments totalled $223.2 million. In January 1996, 8,239 death benefits were paid at an average of $2,521 per benefit. The maximum benefit in 1996 is $3,540. The death benefit is "a lump sum payment equal to six times the monthly retirement pension of the deceased contribution or roughly 10% of the YMPE, whichever is less."[22]

The death benefit is meant to act as a trigger for survivors to inform the government that CPP retirement beneficiaries are no longer living. The application for a survivor benefit also activates the application for the death benefit.

This evaluation has not established whether all survivors who are entitled to a death benefit for a deceased spouse receive one. Determining the "take up rate" is complex because mortality data would have to be aggregated across provinces, and the number of **eligible** would need to be determined for the same period by identifying only those who were, in fact, contributors to the CPP. A pilot study in one province might be useful to establish whether there is a take-up issue which merits extending the study of the take-up of Death Benefits to the CPP coverage as a whole.

The evaluation **has** examined perceptions of the adequacy of the Death Benefit. To obtain from current beneficiaries of a survivor pension perceptions of the adequacy of the death benefit received at the time of the death of a spouse, the survey of beneficiaries asked:

> *The death benefit is a one-time payment to the estate of a deceased CPP contributor. As best as you can recollect, how adequate was the one-time Death Benefit payment from the Canada Pension Plan in covering costs immediately associated with the death of your spouse or common-law partner?*

Exhibit V-1 shows that male and female survivors differ in their perception of the adequacy: 58% of males indicated that the Death Benefit (DB) was less than adequate. For female survivors, the perception that the DB was less than adequate is associated with age (post-retirement age survivors were more likely to find the DB adequate). Recent beneficiaries and those who had re-married were also more inclined than others to see the DB as inadequate.

EXHIBIT V-1 Perceived Adequacy of Lump Sum Death Benefit, Male and Female Survivors

Perceived Adequacy	Males	Females
More than adequate	%2	%2
Adequate	24	39
Less than adequate	58	37
Can't recall adequacy	14	19
DON'T /NOT STATED	2	4
TOTAL	100	101*

Source: Survey of Beneficiaries, CFO Panel.

*Due to rounding.

The "can't recall adequacy" response was provided in the questionnaire in recognition of the fact that the way in which the Death Benefit is administered means that if the surviving spouse was not executor of the estate, he/she might not know the amount of the Death Benefit. Also, given the number of years since the death of a spouse for some of the respondents, difficulty in recalling the adequacy was likely to be significant, as indeed proved to be the case. Of the female survivors who could recall and who ventured an opinion, a majority found the DB adequate. These responses appear to be consistent with the view of key informants and experts that the DB makes a reasonable contribution following the death of a spouse and should not be dropped.

C. The Orphan's Benefit

Opinions on the appropriateness of the Orphan's Benefit (OB) were obtained in surveys from both current recipients[23] and the general population over 25 years of age.

Respondents proved to be divided on the "insensitivity" of the current name, but almost all those who think the name is insensitive

want it changed. Since the vast majority of "orphans" will still have one parent alive and are not therefore truly orphans, "surviving child/children" might be more appropriate.

In the beneficiaries sample, opinions on other aspects of OB were as follows:

- a majority (75%) favoured 25 years of age as the age limit of the benefit if the child is still in school.
- respondents were divided on the age limit if the child is out of school; 49% favour 18 or less years as the age limit.
- a majority (77%) said benefits should be paid to children who leave the care or custody of the parent or agency.
- a majority (54%) said benefits should not be related to the income of those responsible for the support of orphans.

With respect to the age limit for orphans in school and payment of the benefit to children even if they leave the care or custody of a parent or agency, the majority view of current beneficiaries strongly supports the status quo. On the age limit of the OB for those not in school, there is fairly strong support for extending the eligible years to at least 22 years of age. There is also substantial minority support (35%) for relating the OB to the income of those responsible for the support of orphans, although the majority position among those currently receiving OB was for the status quo.

Within the general population 25 years of age and older, a majority also supported the status quo on the age limit for benefits and did not want to see changes relating to the Orphan's Benefit either to the income of the parent/custodian or the contribution level of the deceased contributor.

In the general population survey, a question was included that had not been part of the survey of beneficiaries. It explored whether the public supports the idea of paying a benefit only to the contributor's dependent children not the surviving spouse:

> *Under the current system, **both** a Surviving Spouse's Pension **and** Benefits to the dependent child of a deceased contributor are payable when a deceased CPP contributor is survived by a spouse and child under 18 (or 18 24 if the child is still in school). Some say that benefits should be paid **only** to the dependent child of a deceased contributor (that is, no benefit should be paid to the surviving spouse). In this event the benefit would be much larger than is currently paid for the child. Others say the present system should remain. What is your opinion? (CIRCLE ONE ANSWER ONLY.)*

The result was overwhelming support for the status quo: the support for no change was 84% in the combined samples, with no differences evident in the responses by age or gender.

D. DropOut Provisions

The calculation of benefits under the Canada Pension Plan is affected by how much and how long people contribute. More contributions generally result in a greater benefit. The CPP provides that a contributor's low earning months can be dropped out so that reduced earnings may be removed from the calculation of benefits, and, therefore, will not result in lower future pension benefits.

In addition, other dropout provisions can be applied under the following conditions:

- periods when one stops working or earnings become lower while raising children under the age of seven.
- any month when receiving a CPP Disability Benefit.

Taken together these provisions have the effect of increasing benefits, and therefore Plan expenditures and required contributions. Does the general public think they are appropriate provisions?

Respondents to the general population surveys were asked whether current criteria on dropout should be continued or:

> *In your view, should the dropout provision be extended to cover other forms of family-related care giving, for example, care for an elderly parent or care for a disabled child over the age of seven? What is your opinion? (CIRCLE ONE ANSWER ONLY.)*

Exhibit V-2 shows that many respondents had no opinion on the subject indeed, failure to express a view was higher than on any other issue. However, there was substantial support, especially in the 25-44 age group, among those who expressed a view, for extending the dropout provisions.

EXHIBIT V-2 Extending the Dropout CPP Provision Views of a Survey of General Public, by Age

Responses	Total Both Samples	25-44 Sample	45 and Over Sample
	%	%	%
Dropout provisions should be extended to cover other forms of family related care giving	53.4	58.2	46.5
Current criteria for dropout provisions should be continued	28.6	24.7	34.2
No Opinion/Not Stated	18.0	17.0	19.3

Total	100.0	99.9	100.0

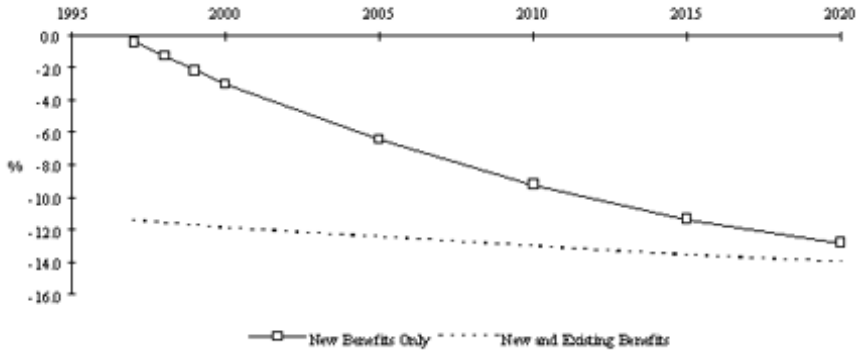
Source: General Population Survey, Q.4.

Respondents were not given an opportunity to say whether they thought the dropout provisions should be eliminated altogether, so that it is possible that some who expressed no opinion may not have found their "answer category" available.

We did, however, simulate the effect of eliminating both the general and child rearing dropout provisions. The elimination of these dropout provisions would be expected to reduce expenditures substantially, but it would make achievement of the objective of replacing 25% of income up to the YMPE through the CPP even harder.

Exhibit V-3 shows the simulation results from the CPP Actuarial Model and indicates the extent of the reduction in expenditures. There is little difference between the two expenditure curves for new benefits compared to new and existing, but all earnings-related benefits are affected by the change. Therefore, the retirement benefit accounts for most of the change, especially in the later years shown and for the change applying to both new and existing beneficiaries. As will be seen later, the effect of this change would be much greater than that of removing credit-splitting.

EXHIBIT V-3 Percentage Reduction in Expenditures Resulting from Removal of the Dropout Provision



Source: Simulation using CPP Actuarial Model.

A further item in the survey of the general public gave respondents a chance to express a view on the appropriateness of increasing or reducing the dropout benefit even if it did not ask directly about elimination.

> *Given the fact that many people today are not working because of a lack of employment opportunities, should the number of years a person can drop out in the calculation of CPP benefits be increased, or should the number of years of drop out be decreased so that benefits are more closely linked to contributions? (CIRCLE ONE ANSWER ONLY.)*

The results in Exhibit V-4 show essentially no clear consensus for change. However, taking the "no change" with the "increase" position there is substantial support among those with a stated opinion for at least retaining the general dropout provision. In this respect, the public and the experts are in accord.

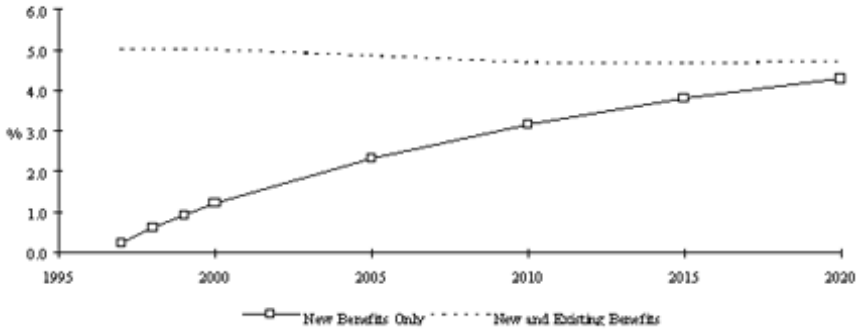
In our simulations we examined the effect of a set of options extending the dropout provision to cover 20 or 25 per cent of the contributory period, rather than the current 15 per cent. Exhibit V-5 shows the results for the increase to 25. Under both simulations, the effect on total CPP expenditure is an increase, as claimants will be able to base their benefits more on higher-earning years. The amount of increase is approximately twice as great for the increase to 25 per cent as it is for the increase to 20 per cent.

EXHIBIT V-4 Changing the Number of Years of Dropout Allowed Views of a Survey of the General Public, by Age

Responses	Total Both Samples	25-44 Sample	45 and Over Sample
	%	%	%
The number of years of dropout should be increased	21.2	20.5	22.1
No change	34.2	35.7	31.9
The number of years of dropout should be decreased	29.4	30.3	28.0
No Opinion/Not Stated	15.3	13.4	17.9
Total	100.0	99.9	99.9

Source: General Population Survey, Q.5.

EXHIBIT V-5 Percentage Increase in Expenditures Resulting from Extending the Basic Dropout to 25 Per Cent



Source: Simulation using CPP Actuarial Model.

E. Credit Splitting

1. Opinions on the Appropriateness

Under the current CPP provisions, married people who subsequently separate or divorce, as well as those who terminate a common law relationship that has lasted at least one year, can split any CPP pension credits they have accumulated during the period they have lived together. Credit splitting results in a permanent amendment to each spouse's record of earnings and may affect the level of current or future CPP retirement, survivor, disability and death benefits.

Respondents to the general population survey were posed two questions [24]shown below:

. Currently, in the case of divorce, credit splitting is not negotiable in most provinces. Some have suggested that credit splitting should continue to be mandatory in the case of divorce to ensure an equal sharing of pension credits, whereas others suggest it should be negotiable between the ex-spouses (i.e., treated like any other family assets that are negotiable on the breakdown of a marital relationship). (CIRCLE ONE ANSWER ONLY.)

	Age and Gender			
	25-44		45+	
	Males	Females	Males	Females
Remain mandatory	27.6	38.3	29.8	37.4
Make negotiable	58.8	47.6	50.6	41.5
No Opinion/Not Stated	13.6	14.1	19.6	21.1
Total	100.0	100.0	100.0	100.0

● Currently, in the case of separation, credit splitting is not mandatory. Since not all separations move through to divorce, some have suggested that credit splitting in the case of separation should also be mandatory to ensure that credits are equally shared, whereas others feel that it should continue to be negotiable between the ex-spouses. (CIRCLE ONE ANSWER ONLY.)

	Age and Gender			
	25-44		45+	
	Males	Females	Males	Females
Remain negotiable	68.2	64.8	63.8	51.1
Make mandatory	17.9	22.1	17.5	28.2
No Opinion/Not Stated	13.8	13.1	18.8	20.6
Total	99.9	100.0	100.1	99.9

With respect to credit splitting on divorce, more respondents favour negotiation, but the level of no opinion is quite high. Female respondents were somewhat more disposed than men to support the current mandatory position (in most provinces); no significant age differences were evident in the level of support for one side or the other on this issue.

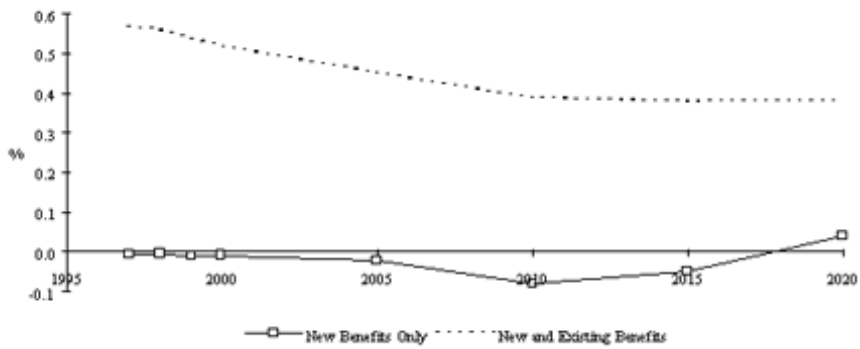
With respect to credit splitting on separation, there was a strong preference, especially among both younger male and female respondents, for having credit splitting remain negotiable; older males were also supportive of the idea.

2. Simulating Removal of the Credit-Splitting Provision

Since credit splitting was, at least in part, implemented to balance CPP benefits between spouses that separate or divorce, one might expect that the removal of credit-splitting to reduce expenditures on benefits. In fact, the introduction of credit splitting actually reduced the costs of CPP in the long term.

Results of simulations using the CPP Actuarial Model show that the removal of the credit-splitting provision would result in a **net increase** in CPP expenditures. Exhibit V-6 shows the simulated percentage increase in expenditures year by year from 1997.

EXHIBIT V-6 Percentage Increase in Expenditures Resulting from Removal of Credit Splitting



Source:Simulation using CPP Actuarial Model.

The exhibit shows a relatively complex pattern of increases arising from the simulation. In fact, if the change applies to new beneficiaries only, the result would seem to be a slight reduction in expenditures over the medium term, with the increases not occurring until over twenty years hence. If applied to existing beneficiaries as well, however, this change would result to an initial increase in expenditures of 0.57% of total CPP expenditures, with this proportion declining to just under 0.4% within about 15 years.

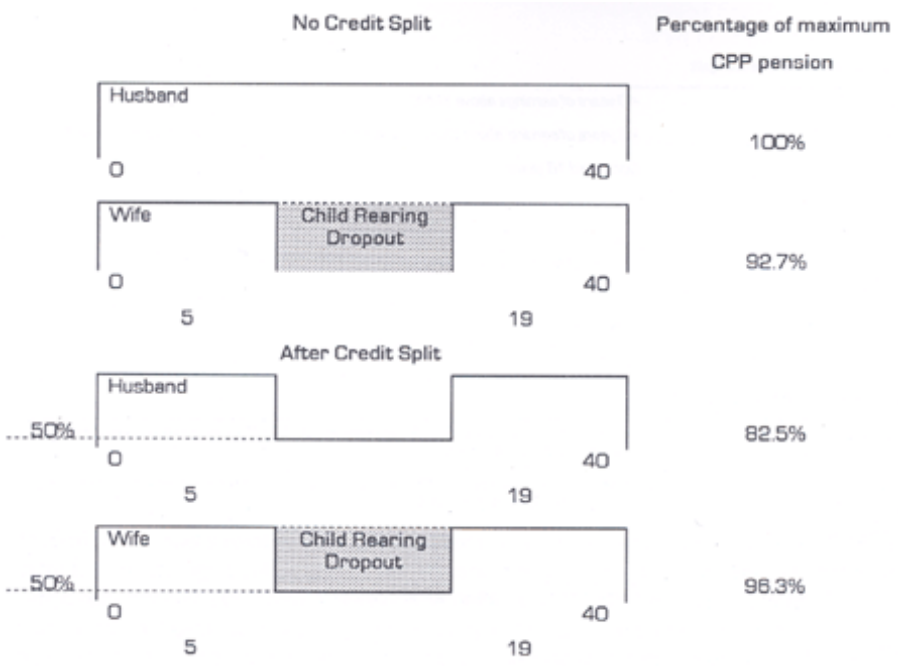
3. An Explanation for the Finding

Credit splitting should by and large be transferring credits from men to women and from those with a consistent earnings record to those with a more erratic earnings record. Both of these effects should increase costs. Women also live longer than men, so equal benefits transferred to women should be more costly. Secondly, some lower earnings obtained through the credit split should be eliminated by general dropout for those with a consistent earnings record.

In fact, these effects are outweighed by the effective reduction in the cost resulting from the child rearing dropout. This is best illustrated by an example,[25] illustrated graphically in Exhibit V-7.

Scenario 1 No Credit Split	
Husband	*40 years of earnings above YMPE*
Wife	*26 years of earning above YMPE, 14 years of zero earnings to raise children under 7* *Cohabited 16 years*
CPP Benefits	
Husband	$\frac{40}{40}$ *= 100% of maximum pension*
Wife	$\frac{26}{28.05}$ *= 92.7% of maximum pension*[1]
Scenario 2 After Credit Split	
Husband	*26 years of earnings above YMPE, 14 years of 50% YMPE earnings after transfer of 14 zero earnings years from wife*
Wife	*26 years of earnings above YMPE, 14 years of 50% earnings transferred from husband, 14 years of child rearing dropout*
CPP Benefits	
Husband	$\frac{26 + 0.5 \times 14}{40}$ *= 82.5% of maximum pension*
Wife	$\frac{26 + (2.05 \times 0.5)}{28.05}$ *= 96.3% of maximum pension*[1]

EXHIBIT V-7 Illustration of the Effects of the Interaction of Child Rearing Dropout Provision and Credit Splitting



This example explains the simulation results: the wife does not need the credits transferred during child rearing years as these can be dropped out anyway. The husband has his earnings reduced by his wife's years of low earnings during which she left the workforce to raise children, but he has no access to the child rearing dropout. The wife also has 14 years of earnings at 50% of the YMPE, which in this example is of no use to her, as they would reduce the average. If her average earnings outside the child rearing period were low, these credits could be useful.

It should be noted that this is a worse case scenario, namely full attachment to the workforce outside the child rearing period, and no attachment during. Less extreme patterns would reduce the anomalies illustrated here.

F. Summary

Our assessment, in this chapter, of the achievement of objectives for features of the CPP other than the Surviving Spouse's Benefit has relied mainly on evidence of the perceived appropriateness of the measures. By and large, experts and our key informants favoured retaining the death benefit, orphans benefits, the general and child rearing dropout provisions and credit splitting. We have not been able to assess whether every survivor entitled to the death benefit received the lump-sum payment (that averages around $2,500). We found that among females who could recall the adequacy, the majority found the benefit adequate. Males were less inclined to this view.

Regarding the Orphan's Benefit the public supported the status quo, but there was fairly strong support for extending OB to at least 22 years of age, even if the child was not in school. With respect to the dropout provision, the public was less inclined to comment on the achievement of objectives. They favoured extending it to cover other forms of family-related care-giving beyond the current rules, but there was no agreement on lengthening or shortening the number of years of general dropout permitted.

The experts and the public differ on the mandatory aspect of credit splitting: the public is more disposed to making it or leaving it negotiable in the case of divorce and separation; the experts favour mandatory provisions. The simulation results showed that the **removal** of credit splitting would actually increase CPP costs, a consequence that would appear to be at odds with an objective of the program. (Credit splitting was intended to be cost neutral, or even to incur a small cost.)

[22]Under the draft legislation to amend the Canada Pension Plan tabled on February 14, 1997, the DB will be equal to six months of retirement benefits, up to a maximum of $2,500. The maximum will no longer be indexed to wage increases. Back

[23]Only the 58 respondents (weighted) to the Survey of Beneficiaries of a Surviving Spouse's Benefit who received an OB were asked questions about the OB. Back

[24]Questions 3a and 3b. Back

[25]See Chapter II, Section C for an explanation as to why this is not 100%, as might have been expected. Back

6. Impacts and Effects

A. The Effect of Survivor Benefits on the Employment Status of Survivors

1. Introduction

It has already been established that Surviving Spouse's Pensions go mainly to women and, in particular, to women of post-retirement age. As discussed earlier, we expect that the proportion of women who are employed at the time of the death of a spouse, or who have longer periods of contribution to the CPP, will be higher in future than is the case today. More women are employed today, so that the probability of their being employed at the time of their spouse's death particularly for surviving spouses of pre-retirement age will be greater than in the past.

This factor relates to the issue of the proportion of surviving spouses that can be expected to have CPP entitlement as a result of their **own** contribution record, in addition to the benefits they may obtain through survivor benefits as the result of a death of a spouse. We note that, despite the increased participation of women in the labour force, and therefore the increased numbers of contributors to CPP, women continue to earn less than men. They are to a significant degree engaged in non-standard and temporary jobs that imply lower retirement incomes. [26]

The adequacy of CPP retirement benefits was addressed in the Phase 1 Evaluation. The focus here is on survivors. In the next section, we present data on the employment status of survivors before and after the death of a spouse. The data come from HRDC's administrative data [27]and the 1996 Survey of Beneficiaries of a CPP Surviving Spouse's Pension conducted for this evaluation.

2. Administrative Data

Earlier analysis has shown a clear decline in labour force activity among beneficiaries. The focus of this section, therefore, is on a comparison of labour force indicators before and after the start of CPP survivor benefits.

This form of comparison suffers a weakness in that the analyst can never be certain that observed changes are solely the result of the benefit. Obviously the loss of a spouse could have a much greater effect on the lives of the survivors than the receipt of several hundred dollars a month. Impacts on health, decisions about where to live, and a number of social and psychological effects are very likely much more significant. On the other hand, no comparison group is available to represent what might happen to the survivors if no survivor benefits were available. Therefore, the analysis derives as much information as possible from the comparison of conditions before and after the death of the CPP contributor.

The data and discussion that follow are derived from analysis of information in the form of annual data for five years before the year in which the survivor benefits started and for five years after that year. Limitations on data availability occur at both ends of the time period covered. In the early years, adequate historical data are unavailable. At the most recent end of the period, insufficient time has elapsed to allow for five full years of experience to have accumulated. The key indicators reported here are averages (including zero values) of the following:

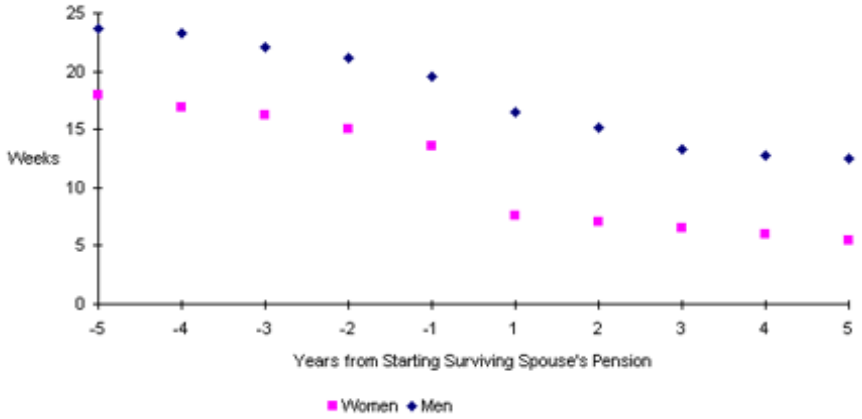
- weeks employed per year.
- annual income from employment (earnings).

. Beneficiaries Reduce Weeks Worked

Weeks employed per year is a very direct measure of labour force activity. Men are employed more than women, but more relevant to the issue of identifying an effect of Surviving Spouse's Pension on employment, is the fact that average weeks employed is noticeably lower in the years following the start of benefits than in the years before. This pattern holds for each year in the analysis (at least where data are available), more so for women than for men. On the other hand, as was noted earlier, average incomes for female survivors increase significantly on the death of a spouse. Therefore, earnings from employment are relatively less important as other sources of income are provided to the survivor on the death of a spouse.

Exhibit VI-1 displays a sample of the data graphically, for women and men who began receiving a Surviving Spouse's Pension in 1988. The latter shows quite clearly the steady downward trend in employment and the higher level of employment among male beneficiaries, both before and after the start of benefits. It also shows, especially for women, that the incidence of employment is noticeably lower after starting benefits than would be the case if one simply extended the pre-benefit trend.

EXHIBIT VI-1 Average Weeks Employed Per Year, by Gender, for Starts in 1988



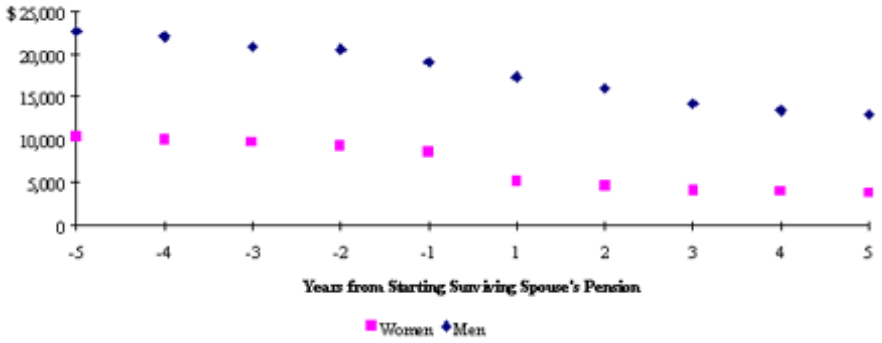
Source:HRDC Longitudinal Labour Force Data Base and CPP Master Benefits File.

b. Beneficiaries Earn Less from Working

Not surprisingly, recipients of a Surviving Spouse's Pension also experience a drop in income from employment commensurate with the reduction in weeks employed. There is a general downward trend over time, both before and after the start of benefits consistent with indications that the average age at which benefits begin has been increasing and that the rate employment is less among older beneficiaries.

More relevant, as seen in Exhibit V1-2, average earnings from employment are lower in the years following the start of benefits than in the years before, and this pattern holds for each year, more so for women than for men.

EXHIBIT VI-2 Average Annual Earnings (1996 $), by Gender, for Starts in 1988



Source:HRDC Longitudinal Labour Force Data Base and CPP Master Benefits File.

3. The Effect of SB on the Employment Status of Survivors Survey Results

The Survey of Beneficiaries found that 30% of the female survivors were employed prior to the death of the spouse. Most of these women were of pre-retirement age. Exhibit VI-3 shows the proportion of each age group of female survivors who were employed in the year prior to the death of the spouse. The experience of pre-retirement survivors is very different from post-retirement survivors, as reflected in the much higher proportions of women who were then working. Also noteworthy is the fact that, for those who were working, the majority were in full-time jobs.

EXHIBIT VI-3 Employment Experience of Female Survivors in the Year Prior to the Death of Their Spouses

Age of Female Survivors at Time of the Death of Spouse	% Employed Prior to Death of Spouse	Avg. Number of Weeks Worked	Avg. Number of Hours	% in Full-Time Jobs (35 hrs. +)
<35 yrs.	48	36.3	37.6	62
35-44	51	43.3	37.7	67
45-64	43	43.1	31.9	50
65-74	30	46.2	30.6	46
over 74	3	*	*	*

Source: Survey of Beneficiaries, CFO Panel questions 11a, 12, 13

*Indicates less than 5 cases.

What do the survey results indicate about the reaction of women to labour market attachment after the death of a spouse? The broad answer to the question is provided by the following profile: for **most** there is no effect. When all female survivors who were employed before the death of their spouse (n = 225) were asked "What effect, if any, did the death of your spouse or common-law partner have on your employment?", the answers were as follows:

- Stopped working: 14%
- Worked fewer hours: 5%
- Worked more hours: 16%
- No effect: 58%
- Not stated: 7%

To show the impact of the death of the spouse more clearly, we have combined immediate post-death employment with "employed in 1995" to summarize the pre-post employment status more sharply. Exhibit VI-4 shows that the vast majority of the women who worked **before** the death of their spouse (disproportionately spouses who are currently of pre-retirement age) also worked **at some time** after the death of the spouse.

EXHIBIT VI-4 Employment Status Before/After Becoming a Beneficiary of a Spouse's Pension

	Employment Status Before Death of Spouse	
Employment Status After the Death of Spouse	Working N = 210	Not Working N = 515
	%	%
Working	89	12
Not Working	11	88
Total	100	100

Source: Survey of Beneficiaries, CFO Panel questions 11a, b, 14, 15. 23 cases are missing values in the table as a result of a Don't Know/No Answer response to any one of the questions.

The vast majority of women who were not working before the spouse's death were not working afterwards (88%). This was true for all age groups. The age distribution of the female sub-sample that was **not working before but was working after** (n = 64) was distributed as follows:

- younger than 45 years of age: 11%
- 45-64 years of age: 44%
- 65-74 years of age: 34%
- 74 years of age and over: 11%

These survey data are a useful counter perspective to the administrative data shown earlier. For those who are working there is a reduction in work following the death of a spouse, but most women were not working before their spouse's death.

B. The Effect of Other Sources of Income on Net Survivor Benefits

SIMTAB (Simulation/Tabulation) was designed to simulate economic transfer systems and the impacts of policy alternatives. It takes into account the combined effects of other income support programs and taxes on both the size of benefits and on total family income. It thus permits an assessment of the contribution of SB to disposable income and it allows a calculation of the aggregate effects associated with survivor benefits. We regard it as the only reliable source of information to respond to the evaluation question: "What proportion of survivor benefits are recovered through the tax system or through lower costs of complementary programs, such as GIS, SPA, or provincial welfare?"

The model was run with the CPP/QPP survivor benefits included as a source of income, then run again with this benefit deleted.[28] The net effects on various other programs were then calculated, including GIS/SPA, the Child Tax Credit, GST Credit, federal and provincial taxes, and provincial tax credits, but excluding social assistance, worker's compensation, and other sources of income.

Exhibit VI-5 indicates what the federal and provincial governments pay for CPP survivor benefits and would pay for other programs in their absence.

EXHIBIT VI- 5 Effect of Removal of Survivor Benefits on Government Revenues

Program	Federal	Provincial	Total
	(billions of dollars)		
CPP/QPP Survivor	-2.272	-0.969	-3.241
GIS/SPA	.568		.568
Income Taxes	.405	.286	.691
Other*	.016		.016
CPP/QPP Credit	-.177	-.136	-.314
Social Assistance	N/A	N/A	N/A
Total Net Effect	-1.560	-.819	-2.280

*Includes GST credit, child tax credit, and provincial tax credits.

N/A: not available.

Overall, governments now issue about $3.2 billion per year in CPP/QPP survivor benefits, according to the model. In the absence of CPP/QPP survivor benefits, however, government expenditures on GIS/SPA benefits could be expected to increase, income taxes would be reduced, but CPP/QPP benefits would not have to be paid. The net result predicted by the SIMTAB model is that government expenditures would be reduced by over $2 billion. While the savings would be realized from CPP/QPP funds, the additional expenditures associated with the removal of CPP benefits would be financed from the Consolidated Revenue Fund.

As noted, social assistance is not accounted for in the above analysis. The results of the MAPSIT examples suggest that there could be substantial liability for welfare benefits if CPP survivor benefits were no longer available. Inclusion of the effects of social assistance in the above analysis would greatly enhance its value and is strongly recommended as a direction for further research.

C. An Unexpected Interaction Between Ancillary Benefits: The Effect of the Variable Contributory Period and Dropout

Given the complexity of the CPP, and the fact that changes have been made to various program components, it is not surprising that interactions arise between ancillary benefits.

At its inception, the CPP had a "fixed" contributory period, of age 18, or January 1, 1966, whichever was later, to age 65. Other than for those already aged 18 in 1966 (or immigrants coming to Canada after 1965), the contributory period was a fixed 47 years, giving a fixed dropout period of 7 years, and hence a "net" contributory period of 40 years.

The introduction of the child rearing dropout as well as a flexible retirement age (60 to 70) has made the contributory period, and hence this general dropout period, variable rather than fixed. This has an impact on the supposedly cost-neutral nature of the early retirement provision. It could also distort the decision regarding early commencement of the CPP retirement benefit for those who exit the workforce prior to age 65. Exhibit VI-6 illustrates some of these effects.

The table under Case 1 illustrates the impact of the variable contributory period on early retirement pensions. For example, in column 4 (Benefit Commences at 65; Scenario I), a contributor working for 32 years would have contributed for 80% of the total potential number of years to age 65, after the 15% general dropout (7.0 years). This would give rise to a monthly pension of $582 per month, starting at age 65.

EXHIBIT VI-6 Examples of Impact of Dropout Provisions *Data:*

Date of birth:	January 1, 1949
Contributory period commenced:	January 1, 1967
Earnings while working: Prior to age 60 Ages 60 to 65	In excess of YMPE Zero
Case I: No child rearing dropout	
Years out of workforce prior to age 60 (other than child rearing years) Scenario I 10 Scenario II 5 Scenario III 0	

		Benefit Commences at Age					
		60			65		
Scenario	Formula	I	II	III	I	II	III

1. Maximum contributory period	Data	42	42	42	47	47	47
2. Actual years of earnings	Data	32	37	42	32	37	42
3. General dropout	15% x (1)	6.3	6.3	6.3	7.0	7.0	7.0
4. Percentage of maximum YMPE	(2) ÷ ((1) - (3))	90%	100%	100%	80%	92%	100%
5. Monthly pension (1996)	0.7 x (4) x 727	$458	$509	$509	n/a	n/a	n/a
6. Monthly pension (1996)	(4) x 727	n/a	n/a	n/a	$582	$669	$727
7.Percentage of maximum pension	(5) ÷ (6) for each scenario	79%	76%	70%	n/a	n/a	n/a

Note: "Percentage of maximum pension" is the percentage of early retirement pension at age 60 compared to an unreduced pension, i.e., $727, based on the given work pattern.

EXHIBIT VI-6 Examples of Impact of Dropout Provisions (cont'd)

Case II: Including child rearing dropout 10 years							
Years out of workforce prior to age 60							
Scenario I 10 Scenario II 5 Scenario III 0							
		Benefit Commences at Age					
		60			65		
Scenario	Formula	I	II	III	I	II	III
1. Maximum contributory period, after child rearing dropout	data	32	32	32	37	37	37
2. Actual years of earnings	data	22	27	22	22	27	22
3. General dropout	15% x (1)	4.8	4.8	4.8	5.6	5.6	5.6
4. Percentage of maximum YMPE	((2) ÷ (10[1]) ÷ ((1) - (3) - 10[1])	81%	100%	100%	70%	86%	100%
5. Monthly pension (1996)	0.7 x (4) x 727	$412	$509	$509	n/a	n/a	n/a
6. Monthly pension (1996)	(4) x 727	n/a	n/a	n/a	$509	$625	$727
7. Percentage of maximum pension	(5) ÷ (6) for each scenario	81%	81%	70%	n/a	n/a	n/a
8. Percentage of pension without child rearing	See note below	90%	100%	100%	87%	93%	100%

Note: "Percentage of pension without child rearing" is the percentage of pension in the table compared to the pension payable had the contributor worked 10 years instead of leaving the workforce for child rearing purposes, i.e. row (5) or (6) in Case II ÷ (5) or (6) in Case I.

[1]*Child rearing dropout.*

This table illustrates the same early retirement anomalies that were noted for Case I, shown here on row (7). Row (8) in the table above illustrates the phenomenon in relation to child rearing. Figures in this row are obtained by dividing the monthly pension in rows (5) or (6) by the corresponding figures in the same rows in the table under Case I.

If the contributor were to commence to receive the pension at age 60, there should be a 30% reduction applied, to give an expected pension of $407 per month. However, because of the variable contributory period, the 32 years contribution represent 90% of the total potential years to age 60 (not age 65) after the 15% general dropout (6.3 years). Applying the 30% reduction gives a pension of $458, as shown in the table.

If the variable contributory period were changed to a fixed contributory period, the three entries in the bottom line of the table should all be 70%, not 79%, 76% and 70%, respectively. These percentages are obtained by dividing the monthly pension in row(5) by the corresponding figure in row (6) for each of scenarios I, II and III respectively in Exhibit VI-1.

The table under Case II illustrates the impact of the child rearing dropout. Clearly, the application of the child rearing dropout gives a higher pension than if there had been no such dropout. However, if the objective were to provide roughly the same pension as if the contributor had been in the workforce during the child rearing dropout years, this objective of full compensation is not being met in some cases.

For example, in Case II, Column 4 (Benefit Commences at 65, Scenario I), without the child rearing dropout provision, the contributor would have received $400 per month. However, had the contributor actually worked the 10 years instead of leaving the workforce to raise children, the pension would have been $582, the equivalent figure in the Case I table. If the objective of full compensation were being met, all entries in the last line on the Case II table would all be 100%, whereas most of the percentages are below 100%.

We draw the following conclusions from analysis of these cases:

- the "early retirement factor" is 6% a year this ensures approximate cost neutrality between commencing to receive the pension between 60 and 65 and at 65 (30% for 5 years)
- in fact, the reduction, after taking into account the variable contributory period, could be as little as 21% for 5 years, in the examples provided, representing a subsidy of about 10% of the pension.
- the objective of the child rearing dropout could be expressed as attempting to give roughly the same pension to those who leave the labour force to raise children as compared to those who do not interrupt their careers in this manner. While the objective is achieved in some of the scenarios, it is not in others, although clearly a larger pension is paid than if there were no child rearing dropout at all.

The first issue (early retirement anomaly) would appear to be an unintended side effect of the flexible contributory period. A fixed contributory period (for example, to age 65) would eliminate this problem.

The second issue (child rearing dropout anomaly) is caused by dropping an equal number of years from both the numerator (the years of earnings) and the denominator (the contributory period). This does not give the same result as crediting a contributor with years of service while absent from the workforce for child rearing purposes. The latter approach would more accurately calculate the pension as if the contributor had not left the workforce, but would add to the cost.

D. Economic Effects of CPP Contributions on Employers/ Employees

1. Introduction

The CPP is funded on a cost-shared basis through the compulsory contributions of employers and employees, with self-employed persons paying the combined employer-employee rate. From 1966 to 1986 the employer contribution was stable at 1.8% of the Year's Maximum Pensionable Earnings (YMPE), and rose to 2.8% in 1996.

The CPP employer payroll tax currently accounts for roughly 20% of all employer payroll taxes in Canada. This proportion varies from province to province and even within provinces depending on the specific features of other payroll taxes such as the employer health tax, which can vary depending on firm size. Overall, employer payroll taxes have increased during the decade of the 1990's as a fraction of total employer payrolls. Currently employer payroll taxes account for approximately 13% of payroll costs. The CPP employer tax has increased at approximately the same rate as all other payroll taxes combined, maintaining its roughly constant share.

2. The Incidence of the Employer Payroll Tax

The economic impacts of the CPP employer payroll tax depend on the extent to which the employer, as the initial payer of this tax, bears its full burden. The labour market literature refers to this issue as the incidence of the payroll tax. A recent U.S. [29]study indicates that, through lower wages, workers bear more than one-half of the burden of mandated insurance financed through the payroll tax. This means that employer labour costs rise by less than half of the tax paid so that the negative impacts on employment and competitiveness are reduced. This finding is confirmed in recent Canadian studies.[30]

3. Payroll Tax Impacts

We find that the labour market literature does not provide unambiguous conclusions about the overall economic impacts of the employer CPP payroll tax. A recent major OECD study identifies a number of factors that contribute to the gap between employer costs per unit of labour and the consumption financed by this employer payment. [31] The study refers to this gap as the tax wedge. Some of the components of the gap reflect employer payroll taxes such as the CPP. However, the entire wedge is made up of the sum of the social insurance contributions of employers and employees, personal income taxes, and consumption taxes such as the GST and provincial sales taxes. Taken together, all of these elements of what the OECD study refers to as the employment tax wedge have impacts on labour supply and labour demand decisions in labour markets.

Analysis of comparative data for a wide range of OECD countries from 1978 to 1992, showed that although the overall average of the tax wedge has not changed significantly from 1978 to 1991/1992, there have been changes for a number of individual countries. In fact, as the last column in Exhibit VI-7 shows, the rate of increase over this entire interval has been larger for Canada than for any of the other countries included in the comparison.

Payroll taxes that are borne by the employer have the potential to reduce employment, increase unit labour costs and reduce the competitive cost position of firms in countries where such taxes are important. What matters is the extent to which the tax burden is shifted to workers. If the employer CPP payroll tax is not shifted fully to workers, the portion borne by employers **will** reduce employment. However, the extent of the employment reduction by firms depends on the elasticity of the demand for labour.

EXHIBIT VI-7 Overall Marginal Tax Wedges [1]in Selected OECD Countries, 1978-92(Percentage Tax Rate as Described in Footnote 1)

	1978	1981	1985	1989	1991/92	Ratio of 1991/ 92 to 1978
Australia	38.8	37.8	52.1	45.4	43.5	1.12

Canada	39.8	41.2	43.5	41.9	55.1	1.38
United States	44.3	50.4	48.1	38.2	38.5	0.87
OECD Europe	62.1	63.5	65.8	65.0	63.1	1.02
European Community	59.1	60.8	63.9	62.7	62.8	1.06
OECD non-Europe	35.4	37.7	41.6	36.8	39.8	1.12

[1]The overall tax wedge includes employees' and employers' social security contributions, personal income taxes and consumption taxes. Social security contributions and income taxes are calculated by applying tax rules to the level of earnings of an Average Production Worker (APW), as calculated in OECD, *The Tax and Benefit Position of Production Workers.* Consumption tax rates are calculated from aggregate tax and national income data. Non-wage labour costs other than social security contributions are not included in the calculations. Social security contributions include only those paid to the public sector, contributions to the private sector are ignored despite their importance in some countries. Social security contributions in some countries are closely linked to expected benefits; therefore, treating them in the aggregate as if they were simply taxes is a simplification. Payroll taxes which are not earmarked for social security are not taken into account in these calculations. No account is taken of "non-standard" reliefs, such as those for mortgage payments (see the *Tax and Benefit Position of Production Workers* for a detailed discussion of limitations). Furthermore, the tax wedges in this table only concern one point on the earnings distribution (the APW case), and someone on this income level may have consumption patterns which lead to different consumption tax payments from those derived from aggregate data.

Source: OECD, *The OECD Jobs Study: Taxation, Employment and Unemployment, 1995.*

There is also an employee impact from the component of the CPP tax paid by workers. Although it is difficult to know how the full package of CPP benefits is valued by workers because of the extent of worker diversity, it is clear that on average, workers in early cohorts of the CPP should value these benefits more highly than later cohorts. In fact, the calculated generational rates of return appear so high for earlier cohorts that it is likely that the benefits were valued at the contribution amounts or more. As a result, there should have been no employment impacts of the system in the early years of the Canada Pension Plan. As CPP premiums increase, and if there is uncertainty
about what benefits to expect, then the value to workers of participation declines. To the extent that employees value prospective benefits less than their contributions, this is a tax that reduces the incentive to work. In principle, the situation for the self-employed is very similar.

The impacts of the CPP in terms of both the worker and the firm tax components also have a generational dimension. Consider a typical worker at the time that the CPP was introduced who was 55 years of age and ten years away from anticipated retirement. If that worker retired and received CPP benefits for the average lifespan of a 55 year old person, then that person's payouts from the CPP would substantially exceed contributions. As the Phase I CPP evaluation points out, this is an inevitable result of introducing a pay-as-you-go pension system. This means that generational rates of return from CPP will differ quite substantially. The effect is exacerbated by the demographic changes of the post-war baby boom.

How important are CPP employer payroll taxes in the overall competitiveness picture? There are no published overall assessments in quantitative terms of the economic impacts of the Canadian CPP employer payroll tax. This is because such an estimate requires data on a series of intervening variables, including the incidence of the tax, the employer response to the net tax in terms of labour demand elasticities and the labour supply response.

In comparing tax initiatives that affect the labour market, a complete perspective requires information on payroll taxes, but also on other taxes affecting the labour market. Currently, even among employer payroll taxes, CPP does not dominate in terms of cost impacts, since the CPP employer payroll tax has accounted and still accounts for **one-fifth** of all employer payroll taxes. Moreover, it seems likely that approximately half of the employer tax burden ultimately falls on employees.

However, the employer cost impact for CPP has increased in the last decade. Looking only at the employers' CPP contribution, the Canadian CPP employer payroll tax is smaller than for our major trading partners (see Exhibit VI-8). On the other hand, the contribution of employers will rise significantly over the next six years. According to draft legislation to amend the Canada Pension Plan tabled on February 14, 1997, contribution rates will rise over the next six years to 9.9% of contributory earnings and then remain steady. These contributions are split equally between employer and employees, so employer contributions will be slightly below 5% of contributory earnings. The self-employed pay the full amount.

EXHIBIT VI-8 Employer Social Insurance Payroll Taxes Selected Countries

COUNTRY	EMPLOYER PAYROLL TAX RATE
Canada	2.8%
United States	6.2%
Germany	8.85%
France	8.2%
United Kingdom	5% to 10.45%*

Sweden	7.45%

*Varies with wage level.

Note: Maximum insurable earnings levels also vary from country to country. Some countries have matching employer and employee taxes as in Canada and the United States, with the self-employed paying both shares. Some countries supplement employer and employee financing with contributions from general revenue.

Source: U.S. Department of Health and Human Services, Social Security Administration, *Social Security Programs Throughout The World.*

E. Comparison of Costs of CPP Survivor Benefit with Private Insurance

1. Introduction

The purpose of this section is to compare private sector sources of survivor income benefits, to review differences in funding approach that may have an impact on the long and short term actuarial costs of alternative private sector provision. In addition, we estimate the differential administrative costs of provision of the benefits from the CPP as compared to private sector sources.

2. Sources of Survivor Income Benefits in the Private Sector

Members of private pension plans will be entitled to pre- and post-retirement survivor benefits on their death. Coverage of the workforce is far from universal: although almost 100% of employees in the public sector are covered by private pension plans, only about 35% of employees in the private sector are so covered.[32]

Since pension reform in 1987, private plans have had to offer a 60% joint and survivor pension on retirement (this percentage varies slightly from province to province). In addition, the plans have to provide pre-retirement death benefits, generally in the form of a lump sum payment equal to the "commuted value"[33]of the member's pension, in other words, the amount that would have been payable had the member terminated membership while still alive.

In addition to pension plans, many employers offer group life benefits. Based on input from the Canadian Life and Health Insurance Association (CLHIA) and other surveys, it is estimated that over 90% of the workforce have employer-provided life benefits. In some cases, this benefit takes the form of a "survivor income benefit", i.e. a monthly payment to the survivor, but the vast majority of these plans provide a lump sum equal to one to three times the employee's salary at the date of death. In many cases the basic benefit is paid for largely or entirely by the employer, with additional optional group life available, paid for by the employee. Generally speaking, such coverage would be for pre-retirement death, although some plans provide for residual amount after retirement, e.g. in the public service a lump sum $5,000 paid-up benefit from age 65.

Generally speaking, evidence of good health would not be required in order to be covered by group life insurance. Depending on the size of the group, evidence of good health might be required in some circumstances, e.g.:

- where coverage amounts are high (e.g., above $100,000).
- where an employee requests coverage some time after joining the organization.
- where an employee requests an increase in coverage.
- in the case of optional coverage.

Finally, Canadians have access to a well-developed life insurance industry. Policies of various types are easily available to most Canadians, at market prices. Policies are by and large expressed as a lump sum insured, although income benefits are available. A declaration of good health is generally required to be accepted for insurance and above a certain threshold medical evidence of health will be sought by the company.

3. Funding of Sources of Survivor Benefit

. CPP

CPP survivor benefits, as are other benefits under the CPP, are funded on a pay-as-you-go basis.

b. Survivor Benefits Under Private Pension Plans

Survivor benefits under private pension plans are funded in the same way as other benefits under these plans, that is to say, they are pre-funded. In other words, an actuarial estimate of the impact of both pre- and post-retirement death benefits is made for each plan and this estimated cost, together with costs for the other components of the plan, is set aside in a fund each year. This reduces the long-term costs of these benefits, as interest will be earned on the funds set aside, which will be used to offset the eventual cost of such benefits.

c. Group Life Plans

By and large, these plans are funded on an annual cost basis. That is the estimated premium cost for the following year is paid to the insurance company underwriting the plan. This is similar to a pay-as-you-go basis, as for a large group, this

premium will equal the claims for the year plus administrative, profit and contingency charges. There may be some limited pre-funding in some cases, e.g. for paid-up benefits.

d. Individual Insurance Policies

Life insurance companies are required to hold a reserve equal to the actuarial value of expected claims plus contingency margins, to be considered solvent. The funding of the benefits therefore depends on the nature of the insurance product. Term life is essentially funded on a pay-as-you-go basis, as in the case of group life. Whole life policies are essentially pre-funded, in that a reserve is held by the company to cover an increasing risk by a level premium. This would be comparable to the private pension plan approach.

The different funding approaches make it difficult to compare both actuarial costs and administrative costs. For example, with a pay-as-you-go approach, there is relatively little difference between the premiums paid in the year and the year's expenditures on benefits and administrative costs. However, with any of the pre-funding approaches, these amounts differ greatly, as an additional amount is paid in premiums or contributions in order to provide for the actuarial reserve. Such pre-funding *reduces* the long-term cost of a benefit, as mentioned above.

4. Integration of CPP with Other Forms of Benefit

There is little evidence that group life policies take into account either the (relatively small) death benefit or pre-retirement survivor benefits under the CPP.

Similarly, evidence is not clear as to whether individuals take into account the expected value of CPP benefits when planning on the amount of individual insurance they buy in the insurance market. On balance it seems that any such reduction would be minimal.

However, most private pension plans do integrate benefits with the CPP benefits. Generally speaking such integration is in relation to **retirement benefits** only. Thus, for example, a typical pension plan may provide a benefit on retirement of 2% final average salary times years of service, integrated with the CPP benefit from age 65, by offsetting the retirement benefit by 0.7% times average YMPE[34] times years of service. The survivor benefit would be 60% of the **retirement benefit**, in other words, it would reduce by 60% of the CPP offset at the **member's** age 65 (even if the member were dead at that point in time). This does not accord with the CPP survivor benefit, which is payable immediately on the contributor's death, and changes from a pre-retirement to post-retirement benefit on the **survivor's** age 65, irrespective of the age at which the contributor would have turned 65. These anomalies are illustrated in Exhibit VI-9.

This table illustrates that in this example the member would have been entitled to $16,000 pa from retirement to age 65, at which age the member's pension would have dropped to $11,100 on account of CPP integration. In total, the private plan pension and the CPP is shown to be level, i.e. the total does not change materially at the member's age 65.

The survivor benefit from the private plan is computed as a percentage of the member's benefit, namely $9,600 pa when the member would have been below age 65 and $6,660 pa after this age (i.e. 60% of the pension that would have been payable to the member had the member still been alive).

The CPP benefit on the other hand changes at the spouse's age 65 from a pre-retirement pension survivor's pension (37½% of the earnings related pension plus a flat rate) to a post-retirement survivor pension (60% of the member's earnings related pension). In this example the survivor pension reduces from $3,360 pa to $2,940 pa. In other cases it could increase.

Therefore, the total survivor pension from the private pension plan could change at both the member's putative age 65 and the spouse's age 65. A different total is payable when both are (or could have been if still alive) below age 65, one below and one above and both over age 65. These changes are not related in any way to the survivor's income needs, but are consequent upon somewhat different benefit design philosophies in the two plans.

EXHIBIT VI-9 Examples of Integration of CPP Spousal Survivor Benefits in Private Pension Plans

- Private pension plans, especially in the public and non-profit sections, provide spousal survivor benefits as a percentage of the pension payable to the member.
- Retirement benefits are generally integrated with the CPP retirement benefits.
- Examples are as follows:
  - Members average salary: $40,000
  - Average YMPE: $35,000
  - Years of service at death : 20
  - Age at death: 45
  - Pension formula: 2.0% per year to age 65
    1.3/2% per year after age 65
  - Spouse's pension: 60% of member's pension

Retirement benefit	Before member is age 65	After member is age 65	After spouse is age 65
Private pension if member had not died	$16,000 pa	$11,100 pa	N/A
CPP	-	4,900 pa	N/A
Total:	16,000 pa	16,000 pa	N/A
Spouse's benefit			
❍ Private plan	❍ 9,600 pa	❍ 6,660 pa	❍ 6,660 pa
❍ CPP	❍ 3,360 pa	❍ 3,360 pa	❍ 2,940 pa
❍ Total:	❍ 12,960 pa	❍ 10,020 pa	❍ 9,600 pa

- Notes
    1. Ignores effects of indexation.
    2. While the spouse is below age 65 (second column) the CPP survivor benefit is 37.5% of contributor's benefit plus a flat rate component. When spouse is over age 65 (third column) survivor benefit changes to 60% of contributor's pension, without flat rate component.
    3. Assumes member has 20 years CPP contribution (ignoring dropout provisions).
- Conclusion
- Objective of integration, namely to provide level benefit both before and after age 65, works reasonably well with retirement benefit.
- By integrating proportion of retirement benefit under spousal survivor benefit, objective of level benefit not achieved for survivor benefits.
- Total spousal benefit will reduce at member's putative age 65.
- Spousal benefit will change again at spouse's age 65 - will reduce if member's pension is less than 75% of CPP maximum, otherwise, will increase.

5. Comparison of Actuarial Costs

For the reasons explained above, it is very difficult to compare the actuarial costs of various providers of survivor benefits, versus the CPP. It is likely that given its broader coverage, the CPP would experience a higher average mortality than other plans, giving rise to a slightly higher cost. However, this cost encompasses among other things the fact that some of those covered by the CPP would be uninsurable or insurable only with extra premium. For example, it covers contributors with a weak attachment to the workforce who would not be covered elsewhere.

It is difficult to separate out the cost for survivor benefits in private pension plans. In any case, the design of such benefits is far from uniform. Notwithstanding a certain degree of uniformity brought about by pension legislation, a number of models exist, for example a CPP-like benefit under the federal public service plan, to a strictly cash approach in money purchase (defined contribution) plans. In addition, for post-retirement survivor benefits, some plans provide these as "add-on" benefits, at no extra cost to members with spouse at the date of retirement, while other plans actuarially reduce the pension to account for the joint and survivor feature. In these latter plans, the survivor benefit is at the plan member's expense, not the plan as a whole. Finally, the pre-funding of these benefits makes a direct comparison difficult.

Again, the variety of group life and individual insurance designs, and the variability of different groups (white collar, pink collar, blue collar etc.), make direct comparisons very difficult.

The overall conclusion is that the "wholesale" cost of the benefit (i.e. the proportion of contributors dying each year) probably does not vary greatly as between the CPP and other sources of survivor benefits. It is therefore unlikely that significant savings could be realized by any form of "privatization" of the survivor benefit, due to lower actuarial costs in the private sector.

6. Administrative Costs

Again, a direct comparison of administrative costs of the various programs is fraught with difficulties. In the case of CPP, for example, it would not be possible to separate out the marginal cost of providing survivor benefits. The best we can do is indicate the cost per dollar of total expenditure. The same would be true for private pension plans, with the added complication that the total administrative cost of private pension plans is very difficult to estimate, as much of the direct and indirect cost is borne by the plan sponsor and is not readily available, even as a cost per dollar of benefit. Also private plans vary greatly in size. For the larger ones, costs per dollar of benefit are probably comparable to CPP costs (1-2% of contributions), whereas the smaller ones have more significant costs per dollar of benefit.

For group and individual life insurance we have estimated, based on internal Mercer sources, the overall administrative cost as a percentage of the total premium paid for life benefits. The estimated cost for large employer plans would range from 2% to 4% of

total premium (excluding applicable premium taxes). This is slightly higher than the estimated 1.3% of total expenditures required to administer all aspects of the CPP program. However, the cost for smaller employer groups is much higher, at 10% of total premium or more, depending on the employer size. The cost to administer individual life is much higher again, with administrative costs ranging from 30% to 40% of the total premium.

The conclusion is that the CPP cost per dollar of total expenditure is low in aggregate. There is no reason to believe that survivor benefits create costs out of line with the average. Private pension plans, at least the larger ones, are also low cost providers, as are group life plans. However, the individual life insurance industry tends to have relatively high administrative costs, compared to the other sources of survivor benefit discussed here.

7. Conclusions

It is very difficult to compare CPP actuarial costs and administrative costs for survivor benefits with comparable benefits provided by private pension plans, group life plans and individual life insurance. It is likely that the actuarial cost of the CPP is slightly higher than that for the other plans, due to the higher mortality likely experienced by the broader group covered by the CPP. However, this cost could not be reduced by privatization this would merely deprive those who might find it difficult to replace such coverage of a benefit.

Insofar as administrative cost is concerned, the CPP has comparable costs to those found for large pension plans and group life plans, all of which have low costs, although it is difficult to be sure that all costs are being measured properly. CPP costs are significantly below those for individual insurance.

We also looked at what evidence there was for integration of other sources with the CPP. Not much work has been done in this regard, but it would appear that there is little or no integration with group or individual life insurance sources. There is integration with private pension plans, but it tends to be somewhat indirect, as indicated above.

F. Summary

The impact of survivor benefits on the labour market behaviour of female survivors following the death of a spouse was limited. Most of the current beneficiaries were not in the labour force at the time of the death of a spouse and for most the situation did not change afterwards. Trend analysis shows that the number of weeks worked by women revealed a downward trend both before and after the start of benefits. This is reflected in annual average earnings.

In future, it is not likely that significantly more widows will be employed at the time of the death of their spouse/partner. In part this is because the longevity of males is greater now than in the past and also because of a trend to earlier retirement. This means that it is likely that neither partner will be working at the time of the death of a spouse, and there is little reason to think that many will seek/find employment afterwards.

Changes in women's labour market participation have had an impact on how successful the child rearing dropout has been in compensating women for dropping out of the labour force for the care and nurturing of young children. Women who benefit the most are those who leave the workforce during child rearing years and have a strong attachment during years when they are not caring for young children. This was probably the model most prevalent in the 1970s, when this provision was first introduced.

Women who leave the workforce for only a short period on the birth of a child and continue to have a strong attachment to the workforce during child rearing years benefit relatively little from this provision. In fact, they pay CPP contributions for periods of service that they would have been credited with anyway, because of the child rearing dropout. The model of the mother who returns quite soon to the workforce after the birth of a child is much more prevalent now than it was previously.

The CPP employer payroll tax has been increasing in recent years, but it is relatively smaller than for our major trading partners. Currently, the CPP does not dominate the cost impacts on employers, since it accounts for only one-fifth of all employer payroll taxes, but it is scheduled to rise significantly in the next fifteen years.

Other impacts noted were the following:

- when a model simulated the effect of the removal of survivor benefits on government revenues, we found that the net effect of removal was a reduction in government expenditures of over $2 billion. While savings would be realized from CPP/QPP funds, the additional expenditure would be financed from the Consolidated Revenue Fund.
- the introduction of flexible retirement has made the general dropout variable rather than fixed and may result in inequalities between those who commence to receive their CPP early, compared to those who wait to age 65.
- because of differences in the population covered and the variety of group life and individual plans available, it is difficult to compare actuarial and administrative costs for survivor benefits with comparable benefits provided by the private sector. However, it seems likely that the **actuarial costs** of the CPP are slightly **higher** due to the wider coverage. CPP has **comparable administrative costs** to those of large pension plans and group life plans and **significantly lower administrative costs** than individual insurance.

[26]See, for example, Monica Townson. Reforming the Canada Pension Plan, Status of Women, 1995. Back

[27]The Longitudinal Labour Force Data Base and CPP Master Benefits File. Back

[28]The Survey of Consumer Finance from which SIMTAB draws much of its information combined all income from CPP, without distinguishing the different kinds of CPP benefit. An algorithm was used to identify whether each household received survivor benefits in particular. Throughout the SIMTAB analysis, therefore, amounts of CPP survivor benefit reported must be taken as approximate, and could include both Surviving Spouse's Pension and Orphan's Benefit received as CPP benefits. The SIMTAB analysis made no attempt to distinguish Orphan's Benefits because the survey data base would not support the small numbers of beneficiaries involved. This is consistent with our treatment of the combination of OB and SB in the use of the Survivor's survey data on household income. Back

[29]A. Krueger and Jonathan Gruber (1991) 'The Incidence of Mandated Employer-Provided Insurance,' in D. Bradford (ed.), Tax Policy in the Economy, MIT Press. Back

[30]See Jonathan Kesselman, Canadian Public Policy, 1996. Back

[31]OECD, The OECD Jobs Study: Taxation, Employment and Unemployment, 1995. Back

[32]Statistics Canada (1996) Cat. 74-507. Canada's Retirement Income Program: A Statistical Overview. p.48. Back

[33]The commuted value is the discounted value of the benefits payable to the member on the assumption that the member terminated service instead of dying. Back

7. Evaluation Findings and the Consideration of Alternatives

A. The Main Findings of the Evaluation

The main findings of the evaluation support the continuation of the Surviving Spouse's Pension and the ancillary CPP benefits we have examined.

The review has established that the rationale persists for the Surviving Spouse's Pension, the Death Benefit, Orphan's Benefit, the general dropout provisions, the child rearing dropout provisions, and credit splitting.

With respect to survivor's benefits, the evidence most strongly supported the rationale for post-retirement survivor benefits. Almost 90% of current beneficiaries are women and, of these, nearly three quarters are over the age of 65. Adequacy of the benefit was validated in a qualitative sense in relation to the original implicit replacement target. Analysis of current data on the significance of survivor benefits within total family income showed that for about a fifth of female survivors, the benefit represents a significant share (at least 20%) of total family income. Reliance on survivor benefits was found to have peaked in the late 1980s and to have declined somewhat since, although the proportion of family income replaced by SB and SB plus other CPP benefits has increased for those in the lowest income categories.

The general public thinks that pre-retirement benefits should not be restricted only to those with children or who are disabled. Although not fully enthusiastic about the current eligibility for pre-retirement survivor benefits, most informed sources accepted the income support implications of the flat-rate feature of pre-retirement benefits. Current beneficiaries tended to support the *status quo* with respect to whether benefits should vary with the age of the surviving spouse and whether benefits should be related to the survivor's income. They also support the current arrangements with respect to Orphan's Benefits.

Except for survivors, evidence supporting the retention of death benefits and orphan's benefits was not so strongly presented; on the other hand no convincing arguments for dropping these features came from informed sources or the general public.

The case for the general dropout provisions of the CPP was supported, even found to be enhanced in view of current labour market instability. Also, and despite the increased participation of working mothers, no convincing argument was made for ending the child rearing dropout provision of the CPP. Removal of the dropout provision would, of course, substantially reduce expenditure under the CPP.

Evidence on the impacts of the program features we examined offered no major concerns for unintended consequences, although there were some:

- simulations suggested that the interaction of survivor benefits with receipt of social assistance could result in perverse consequences: in certain ranges of income, female beneficiaries of SB on social assistance could actually be worse off in terms of net disposable income than they would be without a Survivor's Pension and Orphan's Benefits.
- credit splitting has actually helped to **reduce** CPP program expenditures. The rationale for this ancillary feature of CPP was to create greater equity in the treatment of both partners to a marriage or common-law union. Cost reduction is an unanticipated result, as it was expected that this ancillary feature of the CPP would transfer credits from males to females, thereby increasing cost. But the combined effect with the child rearing dropout provisions has rendered some unintended savings to the Plan.
- the additional complexity arising from provisions added subsequent to the original implementation of the CPP, such as the child rearing dropout and flexible retirement ages, has inevitably given rise to anomalies. Such anomalies include unintended subsidies for early retirement, as well as uneven compensation for dropping out of labour force participation for

child rearing purposes.

Although we found that employed women reduce their average weeks of work after they begin to receive survivor benefits, there was no clear case to support an argument that employed beneficiaries differ from those with no employment income with respect to the adequacy of benefits. In other words, we found no justification for varying the benefit structure for employed survivors to take into account differences in income.

Notwithstanding some unintended consequences, the three basic components of the CPP we have examined SSP, DB and OB should be **retained**. In the next section we examine possible enhancements or alternatives to the current system.

B. Consideration of Program Alternatives

1. Introduction

Many suggestions for changes, both major and minor, were elicited from key informants including major stakeholders, the expert panel, as well as CPP program officers. Input on alternatives was also provided by the surveys of survivors and the general public. Ideas were also provided by reviewing the study of how Canada compares with selected other countries.

This section begins by discussing the context which might create a climate for giving serious consideration to alternatives. It then goes on to discuss changes that have been suggested for each of the components.

2. Context for Change

A number of issues relating to the changing environment in regard to survivor benefits and other ancillary benefits were discussed in Chapter 3. These included such items as:

- changing family patterns.
- greater instability in the family unit.
- more non-traditional work patterns and greater instability of employment among both men and women.
- changes in the social security network.

The CPP has already changed in response to some of these issues.

Additional contemporary contextual issues include:

- charter issues while age and family status distinctions have been upheld in many instances, there is a desire to eliminate these distinctions wherever possible.
- need to make benefits more appropriate, recognizing the "inter-dependency" model of the family.
- perceived unfairness of a common-law spouse receiving the whole of the survivor benefit after a relatively short period of cohabitation.

To address these contextual issues we look at a number of reforms that did not proceed, as well as some current suggestions for change.

3. Post-Retirement Spousal Survivor Benefits

Few alternatives were offered to the current spousal benefit. The only suggestion put forward involves mandatory credit splitting for all couples, with survivor benefits payable on the death of one partner based on the net credits of that partner. One illustration of how this could work is shown below:

	Percentage YMPE		Percentage of maximum benefits (combined)			
Scenario	Higher earning spouse <>(HES)	Lower earning spouse <>(LES)	Current Death of HES	Current Death of LES	Proposed Death of HES	Proposed Death of LES
I	100%	0%	60%	100%	80%	80%
II	100%	50%	110%	130%	120%	120%
III	100%	100%	160%	160%	160%	160%

Notes:

The table ignores the combined benefit rules, to illustrate the point.

The table shows the benefit to the survivor on the death of the other partner.

In Scenario I, the higher earning spouse (HES usually the husband), receives a 100% pension, while the LES (usually the wife) has no CPP entitlement. The total pension paid to the couple while both are alive is 100% of the YMPE. On the LES's death there

is no change in the retirement pension, while on the HES's death, the Surviving Spouse's Pension would drop to 60% of the YMPE.

Scenario II illustrates a working couple where the total income is 150% of YMPE while both are alive, dropping to 130% on the LES's death, but 110% on the HES's death (ignoring the combined benefit rules).

The proposal is to split credits equally between spouses, so that in Scenario I both HES and LES would be entitled to 50% each of the YMPE, for the same total 100% as before, when both are alive. On either death, the benefit payable to the survivor is the 50% of the retirement pension continuing in the survivor's own name plus 60% of the deceased partner's retirement pension, for a total of 80% (50% + .6 x 50%).

Similarly in Scenario II the pension would be split 75%/75% (i.e., 100% plus 50% divided by 2).

On either death, the survivor would receive 75%, plus 60% of 75% or 120% of the YMPE.

In Scenario III, where both parties have equal entitlements, both the current and proposed approaches give the same result, again ignoring the combined benefit rules.

The following points can be made about this suggestion:

- essentially it turns the "joint and survivor" pension into a "first death joint and survivor" pension.
- it thus equalizes the survivor pension, whether it is the HES or LES who died first.
- since HESs tend to be male and LESs female, using a 60% factor (the current proportion of the contributor's benefit that continues to the spouse on the contributor's death) will probably increase costs somewhat, meaning that this factor should be reduced if it is to be made a cost-neutral proposal.
- by combining this pension with marriage breakdown credit splitting, this proposal may be able to deal with the perceived legal spouse/common-law spouse problems.
- the operation of the combined benefit rules would have to be reviewed to ensure equitable treatment.
- the closer men's and women's earnings record are to each others' the more the proposed approach resembles the current approach (i.e. this solves the old problems, not the new ones).
- the anomalies regarding child rearing dropout and credit splitting discussed in Chapter 4 would have to be resolved to make this suggestion viable.

In regard to the combined benefit rules, these have been ignored to illustrate how this proposal might work. If the combined benefit rules were to be applied, all the percentages in the table above would have been capped at 100% and hence there would have been no difference in Scenario II or III between current and proposed post-retirement survivor benefits. (These simplified examples assume cohabitation throughout each contributor's career. The results would be different if we were to model periods of cohabitation and non-cohabitation.)

The fact that there are more and more working couples means that a growing proportion of survivors will be affected by the combined benefit rules. Effectively, the result of the survivor benefit in these cases is to top up the existing retirement pension to 100% of the YMPE, irrespective of what the survivor benefit mechanism is (i.e., current mechanism or some variant of the credit splitting mechanism discussed above).

These issues appear to be of concern in the U.S. (called "dual entitlement limitation") as well,[35] although no specific recommendations to remedy them have been put forward.

4. Pre-Retirement Spousal Survivors Benefit

As has been pointed out before, relatively few dollars go into pre-retirement benefits as compared to post-retirement benefits. Improved mortality will further reduce the financial significance of this component. Nonetheless, this has been the component that has generated the most debate, and the greatest number of alternative proposals.

Alternatives to be discussed are:

- replacing pre-retirement benefits paid to age 65 by a larger transitional or temporary benefit.
- eliminating the flat-rate component.
- graduated eligibility.
- relating benefits to income or other characteristics of the survivor.
- eliminating age and family status distinction.
- basing survivor pensions on "family benefit".
- establishing a separate program, either fully funded and/or on an experience-rated basis.
- changing combined benefit rules.

. Transitional Benefits

The idea of transitional survivor benefits was suggested at the time of the consultation around the 1987 reforms. It recognizes that younger survivors cannot expect to obtain a lifetime income and should be prepared to "adjust" to the death of a partner. A larger payment for a short period (say 5 years) would allow survivors to upgrade skills, open their own business, etc.

If this option were adopted, a choice might be offered whereby an actuarially equivalent benefit payable to age 65 would also be available. Such an approach is also consistent with group life benefits, which are generally expressed as a lump sum equal to, say, 1 to 3 times the employee's salary, rather than as an income benefit.

Opposition to this proposal at the time was based on both cost issues and negative reaction from labour, women's groups and provinces. Insofar as cost issues were concerned, the proposal would have increased immediate cash outflow, even though savings were expected in the long run. This factor may be of lesser significance, if currently proposed changes go ahead. It is currently proposed to increase contributions in the short-term, in order to restrain long-term cost increases. If the transitional survivor benefit change were made it would be in concert with these proposals cash would be available in the short term to meet additional up-front requirements, while providing some long-term relief.

Insofar as the other objection is concerned, opposition by labour, women's groups and the provinces is unlikely to change. These groups feel that any choice between a larger transitional payment and a smaller payment to age 65 would be a false choice. Women would choose the higher amount, because of short-term need, even if they were unable to "adjust". Then, when the money ran out, they would have to find alternative sources, including possibly welfare (hence the provincial opposition).[36]

The transitional approach (with choice) was favoured by both interviewees and some members of the expert panel. The general public was offered a choice in the survey between "a monthly lifetime benefit or a rather larger lump sum survivor benefit." The public liked the choice but rejected the option of providing only a lump sum benefit. In a second question, the public was asked about a choice "between a higher monthly benefit for a limited number of years" (closer to the transitional benefit discussed above) and the current benefit. Their position was virtually the same. Younger respondents, in particular, favoured a choice.

b. Eliminating the Flat Rate Component

Some who provided input to this evaluation felt that the flat rate component was inappropriate as part of a pension plan design. Also, eliminating this "insurance element" would remove arguments about eligibility for benefits it would accrue gradually and therefore could be made available after a short period of contribution. On the other hand, it would give rise to small and meaningless benefits for deaths at young ages, where the benefit is particularly needful in the short run.

As noted previously, the flat rate component simulated a portion of the OAS (one-third of the $75 per month in effect in 1966). With the eventual elimination of the OAS and its replacement by a fully income-tested Seniors Benefit, the flat-rate component may be simulating a post-retirement benefit that is no longer available to a small fraction of Canadians.

On the other hand, given that some level of the Seniors Benefit will still be available to all but the most affluent retirees, eventual elimination of the OAS may not be a sufficient reason to change the flat-rate component.

On balance, the proposal to eliminate the flat rate had little support among interviewees and the expert panel.

c. Graduated Eligibility

This proposal would see the benefit arranged as follows:

- full benefit payable if dependent children present.
- benefit increases by 10% to full benefit after 10 years of cohabitation.
- benefit would decline and gradually be eliminated after cohabitation ceased.

The advantages of this proposal are:

- recognizes "interdependency" rather than "dependency."
- more than one spouse could claim the survivor benefit, roughly prorata to their period of cohabitation.
- does not give instant recognition to a new spouse, but recognizes that financial interdependency changes over time.
- is apparently cost neutral.

The disadvantages are:

- more complex and will require enhanced administration.
- interaction with credit splitting will have to be examined in order to avoid "double dipping", whereby a recently separated spouse would be entitled to a credit split as well as a proportion of the survivor benefit in the event of the contributor's death.

While this proposal was not put to interviewees or the expert panel, it would have responded to a number of concerns that

have been raised, such as the eligibility of a common-law spouse when a legal spouse of long standing was previously present.

This proposal is worth pursuing.

d. Relating Benefits to Income or Other Characteristics of the Surviving Spouse

The Terms of Reference directed us to ask whether the survivor benefit should be related to the employment income of the spouse, or other characteristics, such as years out of the workforce to raise children.

While there was some sympathy for these suggestions among the general public, opinion from the key informants and expert panel was almost unanimously against such proposals. In their view, the CPP is a contributory program, and redistributional elements should be kept to the bare minimum.

Insofar as relating survivor benefits to child rearing, this is already accomplished to some extent by the child rearing dropout, and further measures in this direction are not needed.

e. Eliminating Age and Family Status Distinctions

There is no doubt that attitudes towards age and family status distinctions have changed radically since the inception of the program. In the 1960s, the policy makers' role was seen as one of identifying "target groups" that were most worthy of assistance. Thus widows, but not widowers (except in exceptional circumstances) were included; benefits were suspended on remarriage, presumably on the basis that they were no longer needed.

Today, the Charter of Rights, as well as a search for "real" interdependency rather than stereotypical portraits, is what informs policy. A 1985 report of a Parliamentary Committee on Equality Rights[37] recommended elimination of all distinctions. This is an extreme position in the current context, as courts have recognized bona fide age and other distinctions in pension and benefit programs. In fact, it is hard to see what would be gained by removing the focus of these programs, other than a minor reduction in administrative costs [38]and a feeling that public policy had complied with an abstract principle of "equality".

Interviewees felt that the next related issue would be that of same sex spouses. In what may be a pre-emptive response to a legal challenge, some have suggested eliminating the concept of surviving spouse altogether, replacing it with a "designated beneficiary", perhaps with some preferred hierarchy if a spouse and/or children are present. This approach is less contentious if the survivor benefit is a fixed amount (e.g. a lump sum equal to say 5 times the deceased contributor's pension), as it avoids "anti-selection", i.e. designating a very young person to increase the total benefit.

In general, most sources were uncomfortable with these ideas, as they tended to lose sight of the original purpose of the survivor benefit and were simply reflective of ideas that are currently popular. The majority felt that we should maintain the same basic structure of survivor benefits, without rejecting well thought out alternatives that meet the specific goals of the program.

In regard to the "dependency" versus "interdependency" model, few concrete suggestions were forthcoming, other than the fact that the presence of young children was an indication of enhanced need a feature that is not contradicted by the current design.

f. Basing Survivor Pensions on a "Family Benefit" Design

Some felt that the current age and family status criteria were in fact a proxy for a family need rather than an individual need. One solution to recognizing this model would be to base the survivor benefit on a greatly enhanced children's benefit (probably related to the deceased contributor's earnings records and enhanced flat rate component), with little or no benefit going to the spouse. This proposal would have the added advantage of automatically limiting the duration of the benefit, to the date at which the last child ceased to be eligible.

While this proposal does have merit, and is in line with reforms made to the child benefit program over the last few years, it may not necessarily accord entirely with reality. There is no doubt that there would still be a problem in regard to women who have had little or no attachment to the workforce, even if there are no children present in the household. It is likely that this problem would be more acute for older women whose husbands were close to retirement on their death. These women, as we have noted, constitute the vast majority of pre-retirement beneficiaries.

g. Establishment of a Separate Program

There was no support for a separate survivor income program. In fact, there was no support for provision of these benefits from non-federal (i.e. other than the CPP) sources.

The arguments against such proposals included:

- survivor benefits are part and parcel of the retirement program there would be resistance to zero payments on death from the CPP, even if an equivalent payment were to be available from another program.
- administrative costs would inevitably increase there is no reason to separate the processing of death claims from

retirement claims (compare and contrast this to disability, where very different administrative procedures are required).

- no reason to "pre-fund" these benefits comparable benefits in the private sector (e.g. group life insurance) are generally funded on a more or less pay-as-you-go basis.
- no reason to implement any kind of "experience rated" program variation of mortality rates by different industries is slight, and there would be no deterrent effect on mortality rates caused by the possibility of higher premiums (again, compare and contrast this with disability benefits). There is no reason to grade by age an efficient and widely accessible individual insurance market is available on this basis.

h. Eliminating the Combined Benefit Rules

The combined benefit rules limit the pension available from a retirement benefit payable in the spouse's own name in combination with a survivor benefit, to approximately the maximum retirement pension (25% of the average YMPE). No such rules are in effect in employer-sponsored pension plans. These rules are expected to have an increasing impact on survivor benefits as a larger number of women who have had a significant attachment to the workforce retire.

In fact, there was not much discussion of the combined benefit rules among either the key informants or the expert panel, and no real desire to change them.

Eliminating these rules would provide higher benefits in the post-retirement period for two-earner couples after the death of one of them. This would increase the costs to the CPP and might be perceived as favouring higher earning families.

While there was generally a desire on the part of respondents to minimize the social objectives of the program, it was also recognized that such objectives could not be ignored altogether. Therefore, elimination of these rules would not seem to be desirable at this time.

i. International Study

Few ideas were provided by reviewing pre- and post-retirement pensions in comparator countries. CPP survivor benefits are roughly in line with benefits in these countries. Differences include payment to widows only and cessation on remarriage, both of which would be considered retrograde in today's environment in Canada.

5. Orphan's Benefits

As mentioned previously, orphan's benefits elicited less interest, including fewer suggestions for changes, than spousal survivor benefits. Some discussion of alternatives to the current benefit has already appeared above, in relation to changing the current structure to a "family benefit". Nonetheless, some alternatives are discussed below. These are:

- changing the name of this benefit.
- establishing a uniform age of cessation.
- issues related to custodial versus natural parents.

. Changing the Name

Many respondents to the surveys of the general public as well as of current beneficiaries of an orphan's benefit felt that the reference to "orphan" was insensitive. In most cases the beneficiary will not be an orphan as popularly understood (both parents dead). We suggest that the name be changed to "surviving child(ren)".

b. Age of Cessation

Currently, benefits are payable to age 18 or to age 25 if the beneficiary is in full-time education. Some have suggested a uniform age of cessation irrespective of attendance at school or university. The advantages would be ease of administration. However, on balance, opinion seemed to favour the current structure.

c. Issues Related to Custodial Versus Natural Parents

The issue arises when a child is adopted and the natural parent is living. The rules were changed to recognize eligibility for an Orphan's Benefit in the case of the death of a natural parent as well as the adopting parent.

This somewhat curious provision affects and interests very few people. However, consensus seemed to favour retention of the current arrangements.

6. Death Benefits

As with the orphan's benefit, there was limited discussion of this benefit. The alternatives appear to be:

- eliminate it.
- increase it significantly.
- change the eligibility provisions (e.g. make payments to widows only).

The considerations with respect to these options are as follows:

. Eliminate the Death Benefit

Few respondents recommended the elimination of the death benefit, even though there was consensus that it may have outlived its usefulness. However, savings from eliminating this benefit would be insignificant, and it was felt to be useful in some cases.

b. Increase the Death Benefit

The international study showed that some countries, principally those with highly developed welfare states, had a death benefit far greater than the CPP's. However, there was no constituency for a significant increase, partly in the light of the well developed and widely available insurance products on the competitive market. The only possibility of expansion would be in concert with a reduction in survivor income benefits, as discussed above.

c. Change Eligibility

Again, there was no constituency for any change in eligibility, e.g. widows only, pre-retirement death only, etc. Any such changes would be viewed as retrograde.

7. Credit Splitting and Assignment

The current arrangements for credit splitting on marriage breakdown were strongly supported by both key informants and the expert panel. Three areas could be looked at:

- mandatory versus voluntary splitting.
- better communication of the policy.
- assignment.

. Mandatory Versus Voluntary Splitting

A mandatory approach was strongly supported by the expert panel but not the general public. In fact, most experts recommended that the ability to trade away the CPP benefits on settlement of a marriage breakdown be eliminated. Mandatory splitting would probably require the agreement of the two provinces that currently permit this, namely British Columbia and Saskatchewan.

b. Communications

Many respondents recommended that credit splitting be made "mandatory", apparently unaware that by and large it already was. Since these views were expressed by supposedly knowledgeable respondents, it would appear that enhanced communication on this issue would be a worthwhile endeavour.

c. Assignment

Voluntary assignment can occur when both cohabiting parties are in receipt of a CPP pension even in the absence of a marriage breakdown. On the death of the first member of the couple, the assignment ceases and regular survivor benefits are paid.

The expert panel was not very supportive of this arrangement, seeing it mostly as a tax splitting device available to retirees. On the other hand, there was some support for replacing this arrangement by a full credit splitting type of arrangement, as described in the beginning of this chapter.

8. General Dropout

Initially, after the transitional phase-in period, the general dropout was designed to be fixed, namely 15% of the years between age 18 and age 65. This arrangement gave a 7 year dropout, for a net contributory period of 40 years. This analysis ignores the dropout for months while on disability pension.

Changes to the CPP, namely the child rearing dropout, credit splitting and flexible retirement ages have complicated the originally simple design. Some of these complexities and interactions have been discussed in Chapter 5.

Alternatives discussed below are:

- fixed contributory period.
- greater dropout (or shorter contributory period).
- dynamic dropout period.
- dropout linked to specific causes.

. Fixed Contributory Period

A fixed period of 40 years would be consistent with the original plan design, and would eliminate the complexities caused by flexible retirement ages.

It should be noted that the expert panel was not overly concerned by these apparent anomalies and supported the status quo. The international study, on the other hand, tends to indicate that a fixed contributory period is more common than the current CPP methodology.

b. Greater Dropout

It was noted that 40 year's contribution for a full pension is onerous. However, this duration would be comparable to the period required to qualify for a full pension in the private sector. In the public sector 35 years would probably be more typical.

As noted before, very few retirees qualify for a full pension. On this basis, a shorter period, say 35 years, might be more appropriate. This alternative would correspond to a dropout of about 25% of the years between 18 and 65.

While generally desirable, this proposal would undoubtedly increase costs as shown earlier on page 66. It might have to be accompanied by a reduction in the level of the retirement benefit in order to maintain cost neutrality. This would have the effect of increasing pensions for those with more erratic earnings at the expense of those with steadier earnings records.

c. Dynamic Dropout Period

The suggestion which we have termed the "dynamic dropout period" is to link the dropout period to expected conditions in the labour market for each given cohort entering it. Thus the early and mid 60s may have given rise to a shorter dropout period, given the easier entry into and higher probability of remaining in the labour force for those entrants.

Entrants in the 1990s may be entitled to a larger dropout, given the greater difficulty in entering the labour market, and the likelihood of more tenuous attachment to it.

Intriguing as this idea is, it suffers from a number of flaws:

- it would seem to be impossible to predict labour market conditions over the required 35 to 40 year time period.
- estimates of the appropriate dynamic dropout period would be strongly influenced by current day conditions, as opposed to predictions for the future.
- the focus would probably be on youth unemployment, rather than, for example, on downsizing impacts for those in their 50s, whereas both should have similar weights for a given cohort.
- it would very likely prove to be much easier to increase the dropout than to decrease it, in expectation of better days to come.

For these reasons, we do not think the idea deserves further consideration.

d. Dropout Linked to Specific Cases

The original dropout was designed to accommodate periods of absence from the workforce as a result of continuing education, unemployment, etc. However, the dropout was not linked to specific causes for absence from the workforce. (The child rearing dropout was added subsequently and will be discussed in greater detail below.)

The expert panel was not supportive of a specific linkage (other than child rearing), basically in view of the additional complexity this would entail. The general disposition was to support an increased general dropout to accommodate the more erratic employment pattern in the current labour market.

9. Child Rearing Dropout

The concept of child rearing dropout was strongly supported by most respondents, although a few felt that it was a "social measure" that had no place in a contributory pension plan.

Alternatives discussed are:

- eliminate this provision.
- extend it to other forms of family care duty.
- change to a "drop-in" or credit provision (explained below).

. Eliminate

There was no support for eliminating the child rearing dropout provision, even though it is recognized that its application is uneven, given the variation in work force patterns of participation among women.

b. Extend to Other Family Related Duties

There was support for the suggestion of extending the dropout to cover other family-related duties, among the general public. A similar provision appears to be in effect in the U.K. Such family members could include elderly parents or disabled children above the age of 7.

This suggestion is likely to increase costs somewhat, but does respond to the changing roles of women in the current

economic environment.

c. Drop-In Provision

The "dropout" could be changed to a "drop-in". For example, contributions would be credited with the average earnings during non-child rearing years for each year out of the workforce to care for children under age 7. In some cases, this would give the same results as currently, but in other cases it would differ. It would solve some of the problems identified in Chapter 5, especially in relation to the interaction between the child rearing dropout and credit splitting.

While there was some opposition to the "drop-in" expressed by the expert panel, this appeared to be caused by the possible complexity of establishing the appropriate mechanism.

C. Summary: A Weighing of the Alternatives

Based on input from interviewees, the expert panel, the surveys, the internal study and our analysis, the following alternatives are listed based on whether or not they seem to be worth pursuing in greater detail. For each "change worth pursuing" we indicate briefly the rationale for each change.

1. Changes Worth Pursuing

Change	Rationale
● Surviving Spouse's Benefit:	
Post-retirement:	
Replace the current system with a credit splitting mechanism for all, with survivor benefits payable on the death of the one partner based on the net retirement benefit credits of that partner. It would be necessary to reduce the current 60% factor (i.e., the proportion of the contributor's benefit that continues to the spouse on the contributor's death) to ensure cost neutrality.	This proposal, which would affect both the treatment of retirement benefits and survivor benefits, would change the current voluntary assignment approach on retirement to a compulsory one. At the same time it would change the "dependency" model of survivor benefits to an interdependency model, recognizing the joint contribution of both members of the couple.
Pre-retirement:	
Replace the benefit to age 65 with a lump sum transitional benefit, possibly with an option to receive an actuarially equivalent pension to age 65.	Recognizes the need for pre-retirement survivors to adjust to the new situation created by the death of a spouse.
Establish graduated eligibility, based on years of cohabitation (in the absence of children).	Recognizes gradual growth in interdependence of family members, and reduction of mutual reliance in the event of marriage breakdown.
Replace the surviving spouse and orphan's benefits by a "family benefit" more heavily weighted towards children.	Recognizes that the current structure may be a proxy for family benefit, to some extent. This proposal would change the benefit to recognize this fact more directly.
● Orphans benefits:	
Change the name to something less "insensitive."	Modernize name, to avoid negative connotation of "orphan."
● Credit splitting:	
Eliminate voluntary aspects.	Given unequal information and bargaining power of spouses, the spouse with lower earnings should not have the possibility to trade away the benefit.
Change assignment provisions as discussed above under post-retirement benefits.	Same rationale as under post-retirement benefits.
● General dropout:	

Change to a fixed contributory period.	Eliminates some of the anomalies associated with early retirement reductions, credit splitting and CRDO. Also will fit in better with partial retirement provisions, if these are introduced in the CPP.
Increase the dropout, combined with a reduced level of benefit to maintain cost neutrality.	Recognizes more erratic work patterns and later entry/earlier exits from the workforce. Will distribute retirement income from those with less variable to those with more variable life time work patterns.
• Child rearing dropout:	
Extend the provision to other family related duties.	Recognizes the reality that care givers have increasing responsibilities towards ageing parents and other relatives as well as towards children.
Change to a mechanism (to be determined) that fully compensates for years out of the workforce for child rearing.	More equitable treatment of women who leave the workforce for child rearing. Also elimination of anomalies associated with credit splitting.

2. Changes Not Worth Pursuing

- Pre-retirement survivor benefits:
- Eliminating the flat-rate component.
- Relating benefits to a spouse's income or other characteristics (e.g. years out of the workforce to care for children).
- Eliminating age and family status distinction, without a more in-depth review, as discussed above.
- Establishing a separate program.
- Eliminating the combined benefit rules.
- Orphan's benefits:
- Establishing a uniform age of cessation.
- Changes relating to custodial versus natural parents.
- Death benefits:
- Any change that would eliminate the benefit.
- Credit splitting:
- Extending voluntary provisions.
- Dropout provisions:
- Instituting dynamic dropout based on future expected labour market conditions.
- Linking dropout to specific causes, e.g. further education, unemployment.
- Eliminating the child rearing dropout.

The alternatives identified as worth pursuing create benefits from "modernizing" provisions of the CPP to respond to the changed context. They appear not to create countervailing negative effects, especially increased cost and administrative complexity.

[35]Social Security: Issues Involving Benefit Equity for Working Women, United States General Accounting Office, April 1996. Back

[36]The CPP Actuarial Model was used to assess the effect of limiting benefits to ten years for surviving spouses aged less than 55. If Surviving Spouse's Pensions were to be limited in time, rather than payable for the life of the surviving spouse, one would expect CPP expenditures to reduce in size. Those over age 55 would continue to receive the benefit for life, as they now do. The result was very much the expected: increasingly significant reduction in costs over time. Back

[37]Report of the Parliamentary Committee on Equality Rights, Equality for All. J. Patrick Boyer, MP Chairman, October 1985, the Queen's Printer for Canada. Back

[38]For this evaluation, we used the CPP Actuarial Model to assess the cost implications of removing the age-related reduction for surviving spouses aged 35 to 44. Its removal would raise the costs of the CPP by a relatively small amount. Back

Appendix A How Canada Compares with Other Countries

As part of the review of CPP survivor and other ancillary benefits, we have conducted an international comparison of six countries Argentina, Australia, France, Sweden, United Kingdom and the United States. The Technical Report "CPP Evaluation Study International Comparisons" reviews programs in these countries for any assistance they can lend in regard to assessing CPP provisions under study.

The countries have been chosen to provide a cross-section of social, economic, political and demographic conditions. These countries form a broad spectrum of generosity in terms of social benefits.

The report points out some of the contextual differences that make comparisons difficult to analyze.

The report summarizes contribution levels, retirement benefits, survivor pensions, lump sum death benefits, division of benefits on marriage and drop-out provisions (or equivalent provisions for these countries). Please see the working report for more details.

Most countries provide surviving spouses' and children's benefits similar to Canada, although Australia and the UK confine these spousal benefits to widows. Age and family status dependent pre-retirement spousal benefits seem to be unusual only the UK had a similar pattern.

Lump sum death benefits are also present, but there is more variation. Some countries do not provide such benefits, while others provide much more generous benefits than Canada.

Insofar as other benefits are concerned, some countries (Sweden and the UK) provide some type of drop-out benefits for child care and other family-related duties. It is more difficult to compare general drop-out rules. Most countries seem to favour a fixed contributory period instead of the Canadian approach.

Credit splitting is unique to Canada among the countries studied. Argentina and France pro-rate survivor benefits for multiple marriages instead.

In terms of demographic profile, Canada is a relatively "young" country, similar to Argentina and Australia. Other countries have older population profiles, similar to the expected Canadian profile by the end of the first quarter of the next century. Most countries show similar proportions of women in the workforce (70% of prime working age women).

The report notes a number of proposed changes. For example, some countries are moving toward a defined contribution system. In other countries, benefit reductions are scheduled to occur in the next century.

Finally, Australia is considering credit splitting on marriage breakdown and the UK system, while not splitting state pensions, does consider them as family assets in cases of marriage breakdown.

Similarities and differences with Canada in contributions and benefits, described in more detail in the tables that follow, are summarized below:

Surviving spouse's benefits

Paid in most countries in a similar manner to Canada.

Surviving children's benefits

Similar to Canada's although more variation than spouse's benefits.

Death Benefit

Wide variety of provisions, including no provision.

Division on marriage breakdown

Unique to Canada.

Drop-out provision

Limited similarity in some countries.

Tax deductibility of contributions

International comparisons establish full tax deductibility of employer contributions. Treatments of employee contributions (tax credit) is not found anywhere else.

Review of Contributions and Benefits

Contribution rates

Canada	Argentina	Australia	France	Sweden	UK	US

Government Old Age Pension(OAS& GIS) employer:nil employee:nil Earnings Related Pension (CPP) employer:2.8% employee:2.8% self employed 5.6% of earnings between Year's Basic Exemption ($3,500) + Year's Maximum Pensionable Earnings (YMPE) $35,400 in 1996.	employer:11.2% employee:11% contributory earnings cannot exceed A $4,500 per month. Special contributions apply for self-employed individuals.	Government Age Pension: employer:nil employee:nil (funded through direct taxation). Superannuation Guarantee System: employer:6% of base pay; employee:nil (voluntary employee contributions are permitted). SGS contributions are not applicable to self-employed individuals.	Social Security: employer:8.2% of Tranche A, plus 1.6% of gross earnings; employee:6.55% of Tranche A. Mandatory Supplementary Program (Minimums) employer: Non-Cadre 2.7% of 3 x Tranche A. Cadre 2.7% of Tranche A, 8.5% of Tranche B, 13% of Tranche C. employee: Non-Cadre 1.8% of 3 x Tranche A. Cadre 1.8% of Tranche A, 4.5% of Tranche B, share of employer contribution on Tranche C. Tranche A = FF161,220 Tranche B = FF161,220; FF644,880 Tranche C = FF644,880& FF1,289,760	Flat Rate Pension employer:5.86% Earnings Related Pension employer:13.00% Employees contribute 1% of gross earnings, however, these payments are not specific to the flat rate and earnings related program. Mandatory Industry Plans employer contributions average from 6.3% to 7.5% of payroll.	National Insurance employer: £61-£109 per week:3.0% £110-£154.99:5.0% £155-£209.99:7.0% £210 and over:10.2% employees: 2% of first £61 earnings per week, plus 10% on earnings between £61 and £455 per week.	employer:6.2% employee:6.2% (of first $62,700 of earnings) Self-employed individuals contribute based on combined employer and employee rates.

Tax-treatment of contribution

Canada	Argentina	Australia	France	Sweden	UK	US
Employer contributions are fully tax deductible. Employee contributions treated as tax credit at lowest marginal rate.	Employer and employee contributions are fully tax deductible.	Employer contributions are tax deductible; pension fund is taxed on employer contributions and investment earnings at 15% Employee contributions (voluntary) are not tax deductible	Employer and employee contributions are tax deductible; contributions to the mandatory supplementary program are deductible up to certain limits	Employer contributions are tax deductible and do not represent taxable benefits to employees	Employers' contributions are tax deductible Employees' contributions are not tax deductible	Employer contributions are tax deductible Employees' contributions are not tax deductible.

Exchange rate (June 1996)

Canada	Argentina	Australia	France	Sweden	UK	US
$1 CAN	A$ 0.73	AUS $0.92	FF 3.8	SEK 4.9	£ 0.47	US $0.73

Retirement benefits

Canada	Argentina	Australia	France	Sweden	UK	US

3 components: 1. Government Old Age Pension (Old Age Security (OAS) benefit) Flat rate pension of $394.76 from age 65 for all residents. Subject to clawback for persons with net income greater than $53,215: must repay 15% of excess net income up to OAS amount. 2. Guaranteed Income Supplement (GIS) Means tested pension of up to $469.13 for singles and $305.57 for married. 3. Earnings Related Pension Canada Pension Plan (CPP) Amount of pension is 25% of average monthly pensionable earnings; maximum monthly pension of $722.08 in 1996.	3 components: 1. Universal Basic Benefit 2.5 x AMPO+ 1% of this amount per year of service exceeding 30 years up to a maximum of 45 years. 2. Earnings Related State Benefit 1.5% of average monthly salary (of last 10 years) per year of contribution prior to July/94, plus 0.85% of average monthly salary (of last 10 years) per year of contribution after July/94; Maximum: 1 AMPO per year of service times 35. 3. Private Capitalisation Accounts In lieu of participation in the Earnings Related State Benefit for service after July/94, an individual may elect to have contributions paid into a private fund. These contributions plus accumulated interest will be paid at retirement. AMPO =	2 components: 1. Government Age Pension: Flat rate means tested old age pension of up to 25% of Average Weekly Earnings (AWE), maximum benefit A$8,700 per annum; couples receive up to 42% in aggregate (maximum A$14,600 per annum). To qualify for the means tested benefit, singles may not earn more than 60% of the AWE, couples may not earn more than 100% of AWE. 2. Superannuation Guarantee: Mandatory employer contributions must be applied to provide retirement benefit, but type and form of payment is at the discretion of the employer.	2 components: 1. Social Security: The full pension is approximately 50% of covered earnings up to Tranche A, after 40 years of contributory service. 2. Mandatory Supplementary Program: Amount of pension is based on the points earned during contributory service multiplied by the point value determined at retirement.	3 components: 1. Flat Rate Pension: SEK33,587 for singles and SEK54,928 for couples after 30 years of insurance 2. Earnings Related Pension: 60% of earnings between SEK35,700 and SEK267,750. 3. Mandatory Industry Plans: Pension determined based on the following accrued rates: Rate:Earnings: 10%up to SEK267,750, *65%67,750-714,000, *32.5%14,000-1,071,000 (*salaried employees only)	2 components: 1. Basic Pension: Flat amount payable regardless of income (£61.15 per week for singles and £97.75 p.w. for married couples). 2. State Earnings Related Pension Scheme (SERPS): Currently pension for each year of contributory service of 1.25% of earnings between £61 per week £455 per week.	Benefits are based on career average indexed monthly earnings and favour low income earners. Average wage earners with full career would be entitled to a benefit of approximately 42% of pay or US$830/month. Maximum benefit is US$1,199. Additional benefits are payable to each spouse and children of up to 50% of retiree's pension subject to overall maximum.

	Average Mandatory Contribution of A$75/month, as of October 1995					

Retirement age and eligibility conditions

Canada	Argentina	Australia	France	Sweden	UK	US
From age 65 (or 60 if substantially ceased working) and contributions made for at least one year.	Currently age 63 for men and age 58 for women. Increasing to age 65 and 60 respectively by 2001. Minimum 30 years of contributory service.	Age 65 for men and 60 for women.	Age 60 for men and women after 37.5 to 40 years of contributory service. Benefit prorated if shorter service.	Age 65 for both men and women. Pension is pro-rated over years of service.	Age 65 for men and 60 for women. Must have contributed for at least 90% of career to qualify for full Basic Pension.	Age 65 for both men and women. Minimum of 10 years of contributions required to qualify for a pension. Benefits are prorated over length of potential career.

Survivor pensions

Canada	Argentina	Australia	France	Sweden	UK	US
1. Government Old Age Pension spouse's allowance subject to income tax and residence requirement payable from age 60 to 65 for spouses of deceased pensioners 2. Earnings Related Pension CPP surviving spouse monthly benefit: (1)While spouse under age 65: $127.04 + 37.5% of deceased's retirement pension -reduced benefit if spouse under age 65 unless disabled or has dependent children -no benefit for spouse under age 35. (2)While spouse 65 or over: -60% of deceased contributors retirement pension -if spouse entitled to retirement/disability benefits combined benefit is subject to maximum amounts	Pensions are provided to widows and widowers. Benefit amount: 0% of insured earnings (average salary of 5 last years) for widows/widowers without children; or 0% of insured earnings for widowers/widows with children, plus Pension to each dependent child (under age 18 or disabled) of 20% of insured earnings; orphans pension increased by 50% if no eligible widow/ widower. Maximum total survivor pension is 100% of the insured salary.	Government Age System: Provides for means tested survivor benefits. prior to 1987 a pension equal to the old age pension was payable to widows (not widowers) age 50 or over (or age 45 with a child under 16). post 1987 the qualifying conditions for this benefit have changed: widows are entitled if they have little or no recent workforce experience. no specific orphans pension is provided; instead, the means tested "family payment" is increased. Superannuation Guarantee: Scheme does not mandate specific survivor benefits, but benefits must	Pensions are provided to widows and widowers. Social Security: Provides for an immediate benefit of 54% of the deceased's pension. This is a means tested benefit for which only a small part of the working population qualifies. Mandatory Supplementary Program: -Provides a widow/widowers benefit of 60% of accrued points, payable at different ages for men and women. Provides an orphan benefit of 30%-50% of pension points.	Pensions are provided to widows and widowers. Basic Pre-Retirement Survivor Pension: SEK34,272 plus 40% of projected Earnings Related retirement pension (20% if orphan's benefit is also payable). Payment conditions: surviving spouse lives with a child under age 12, or surviving spouse had lived with deceased for at least 5 years. The benefit is discontinued, if the surviving spouse: remarries, reaches age 65, no longer has custody of children under age 12. Orphan's pension for each deceased parent	Basic Pension and SERPS: on pre-retirement death, pension is payable to widows (female only) who are age 55 and over at the same rate as the single person's retirement pension. Reduced rate if age 45-55, and no benefit under 45 with no children. Additional £9.90 p.w. for the first child age 19 or under and £11.15 p.w. for each additional child. for death after retirement, surviving spouse (male or female) continues to receive a pension at the rate applicable to a single person. SERPS The survivor	Surviving spouses (both widows and widowers) are eligible for full benefits (deceased's projected retirement pension, maximum US$1,199) at age 65. Reduced benefits are available at age 60, or age 50, if disabled, or at any age, if the spouse has a child under age 16. Benefits are reduced to the extent that spouses have accrued their own benefits. Surviving children are eligible for orphans'

		be at least equivalent to accumulated contributions		of SEK8,925, plus 30% of deceased's pension plus additional 20% for each additional child. Mandatory Industry Plan: Provides benefits for salaried individuals only. -Spouse survivor pension of approximately 50% of deceased's pension (reduced by 25% if children). Orphan's pension is also payable.	pension is only payable to a widower (male) if both spouses were over State Pension Age at the time of the wife's death.	pension until age 18.

Lump sum death benefits

Canada	Argentina	Australia	France	Sweden	UK	US
Lesser of 10% of YMPE and 6 times deceased monthly pension . Must have contributed minimum 3 years and for 1/3 of contributory period	Not provided.	Not provided.	3 months salary up to Social Security ceiling (maximum benefit FF40,305).	Provided under mandatory industry plan. Lump sum varying from SEK232,050 for death before age 55 to SEK35,700 for death at age 65. Additional amounts are paid for dependent children.	A lump sum of £1,000 is paid to widows (females) under age 60.	$225 is payable to the surviving spouse.

Division of benefits on marital breakdown

Canada	Argentina	Australia	France	Sweden	UK	US
Pensionable earnings may be split equally between parties for benefit or eligibility purposes subject to minimum cohabitation periods.	Survivor pensions are split 50%/50% between first and second spouses of the pensioner. If the first spouse is considered guilty of the marriage breakdown, the second spouse receives 100% of the pension benefit.	No current practice. Split of superannuation benefits is being discussed.	Survivor pensions and lump sum death benefits are split pro-rata between successive spouses based on the duration of the marriages.	No provisions exist.	No provisions exist.	No provisions exist.

Drop-out provision

Canada	Argentina	Australia	France	Sweden	UK	US

A drop out provision is provided to account for years of absence from the workforce of periods of low or zero earnings during periods of disability, child rearing. Also a general drop out of 15% of contributory period to account for unemployment, higher education etc.	No provisions exist.	No provisions exist.	No provisions exist.	Pension credits can be earned for "child education" years. A notional income gets credited, regardless of whether the spouses are earning regular income during those years or not.	Under the "Home responsibilities protection" plan, both women and men who take time out of the labour market to care for children or disabled people can qualify for a full basic pension in as few as half the usually required number of years.	No provisions exist.

Proposed changes to benefits

Canada	Argentina	Australia	France	Sweden	UK	US
A new "Seniors Benefit" is going to replace the Old Age Security and Guaranteed Income Supplement . Under this program, full benefits will be payable only to seniors earning under $26,000 per year. Reduced benefits payable to about $50,000 (individual) or $75,000 (couples) per year. The Canada pension plan is in process of being reviewed to find ways to deal with the anticipated future costs of the program.		Superannuation contributions will be increased to 9% for employers over the next 6 years; employee contributions of up to 3% of base earnings will be introduced Split of superannuation benefits upon marital breakdown is being discussed		A new pension system is going to replace the existing flat rate and earnings related schemes. It will likely be a defined contribution scheme based on earnings and contributions during the whole career. Contributions to the new scheme are expected to be 18.5% of gross earnings shared between employer and employee.	Normal retirement age increasing to age 65 for both men and women by 2020. Employees retiring after 1998 will receive a maximum earnings related pension of 25% of their average revalued earnings since 1978, reducing to 20% of earnings by 2027. Spouse's pensions equal to the SERPS retirement pensions are paid on death after retirement. This is reducing to 50% of the SERPS pension for deaths after 2000.	Normal retirement age increasing to age 67 for both men and women by 2035.

Review of Demographic Differences

Breakdown of total population

Canada		Argentina		Australia			France	Sweden		UK		US	
Age: Population	% of Total	Age Population	% of Total	Age	Males	Females	Not available.	Age	% of Total Population	Age	% of Total Population	Age	% of Total Population
0-15	20.9%	0-19	39.3%	0-19:	29.3%	27.6%		0-19	24.6%	0-19:	25.3%	0-19:	28.9%
15-24	14.0%	20-39:	27.9%	20-39:	31.9%	31.3%		20-39	27.3%	20-44:	36.6%	20-39:	33.2%
25-34	17.8%	40-64:	23.9%	40-64:	28.4%	27.7%		40-64	30.2%	45-64:	22.4%	40-64:	25.6%
35-44	16.0%	65-74:	5.6%	65-74:	6.7	7.4%		65-74	9.0%	65-74:	8.9%	65-74:	7.1%
45-54	10.9%	75-84:	2.7%	75-84:	3.0%	4.5%		75-89	7.8%	75-84:	5.1%	75-89:	4.7%
55-64	8.8%	85+:	0.6%	85+:	0.7%	1.5%		90 +	0.6%	85+:	1.7%	90+:	0.4%
65-74	6.9%												
75-84	3.6%												
85+	1.03%												

Proportion of women in the workforce - Review of Demographic Differences

% in> workforce women Age over age 15 25-44 45-64 65+	% in of all in age> category 58.2% 77.8% 54.5% 3.5%	Age 0-19: 20-39: 40-64: 68-74: 75 +:	 4.97% 45.46% 37.12% 8.84% 0.96%	Age 15-19: 20-24: 25-34: 45-54: 55-59: 60-64:	% of women 64.3%* 80.4% 68.0% 72.2% 41.8% 17.8% * Data as of December 1995	Not available.	67.5% of total female population are employed outside the home.	Age 16-24: 25-44: 45-59: 60-64:	% of all women 64.6% 73.5% 69.3% 25.3%	Age 16-19: 20-24: 25-29: 30-34: 35-39: 40-44: 45-49: 50-54: 55-59: 60-64:	% of all women 50% 71% 73% 73% 76% 78% 76% 68% 55% 35%

Average drop-out periods for raising children - Review of Demographic Differences						
Up to seven years per child.	Most working women return to the job immediately after the statutory leave of absence (90 days).	Not available.	Not available.	Legal child raising "drop-out" period is 1.5 years.	Not available.	Not available.

Appendix B Details of the Survey of Beneficiaries of CPP Surviving Spouse's Pensions - 1996

We were commissioned by Human Resources Development Canada (HRDC) to conduct a survey of beneficiaries of CPP Surviving Spouse's Pensions. The purpose was threefold:

1. To determine what proportion of total household income is represented by the Spouse's Pension (and Orphan's Benefit, as well, where applicable).
2. To describe the characteristics of beneficiaries in terms of attributes not available through CPP administrative data for example, marital status, whether they own their home free of mortgage, and whether they received a life insurance benefit on the death of a spouse.
3. To obtain the opinions of current beneficiaries with respect to a number of policy alternatives relating mainly to eligibility for the Surviving Spouse's Pension.

The respondents to this survey are derived from an attempted census of all panelists in Canadian Facts' Canadian Family Opinion (CFO) Panel who indicated in a survey sent to all 22,000 panelists in January 1996 that they were in receipt of a CPP Surviving Spouse's Pension. The CFO Panel is a continuously-maintained panel broadly representative of Canadians across the country who participate, from time to time, in self-complete questionnaire surveys on a variety of subjects.

A total of 1,153 questionnaires were mailed. As a result of the process of qualification of respondents as being within the target population (see Questions 1a and b), 116 panelists indicated that they did not qualify. Of the remainder (whom we will call qualifiers), 38 provided information that was so incomplete that it was not useable; 158 did not respond; and 841 responded with complete or virtually complete questionnaires. The response rate from qualifiers was, therefore, 81%. Canadian Facts offered an incentive (a "final lucky draw" for prizes) for those who qualified to complete the questionnaire and who completed it.

Careful edit checks were made on the household income data to ensure that data reported on survivor benefits (or, in some cases, SB plus Orphan's Benefits) did not exceed stated program maxima. The data were then weighted to adjust by age and sex within region to the known population of Beneficiaries of the Surviving Spouse's Pension as recorded in *CPP Administrative data reports, by age and sex within province, March 1996.*

The main effect of the weighting was (a) to increase the number of males (to 93 from an unweighted n of 41) and to reduce the number of females from 800 to 748 (weighted) and (b) to decrease the number of younger female recipients and increase the number of those over 74 years of age.

Exhibit 1 compares the demographic characteristics of respondents to Statistics Canada's 1987 survey with the results of the CFO panel survey.

The 1996 survey respondents have more education and some of this difference will be due to cohort effects. However, we have concluded the CFO data over-represent survivors with higher education levels.

EXHIBIT 1 Profiles of CPP Survivors 1987 and 1996 Surveys Totals

Characteristics		1987 Statistics Canada Survey	1996 CPO Survey
		%	%
Age	Under 45	5.6	4.7
	45-64	34.2	25.2
	65 and over	60.2	71.2
Gender	Male	7.5	11.1
	Female	92.5	88.9
Marital Status	Married/common law	4.4	11.4
	Other	95.6	88.6
Children	Yes	10.5	8.1
	None	89.5	91.9
Education	Elementary of less	36.5	27.0
	Secondary	45.4	45.2
	Post-secondary	17.0	25.9
	Other	1.1	1.9
Dwelling	Own, with mortgage	12.0	9.5
	Own, with no mortgage	49.7	71.2
	Rented	21.3	17.3
	Other/not stated	17.0	2.0

Appendix C Details of the Surveys of the General Public - 1996

As part of the Evaluation of Survivor's Benefits and Ancillary Program Features, we were asked to conduct surveys of the general public's views on a number of program-related features. As was the case for the survey of beneficiaries of the Surviving Spouse's Pension, we surveyed members of Canadian Facts' Canadian Family Opinion Panel. [39]

Two samples were drawn randomly from CFO panelists in the target age populations, excluding persons who responded to the Survey of Beneficiaries of a Surviving Spouse's Pension. We drew a sample of 1,500 names for the 45 and older sample and 1,000 households for the 25 to 44 age group. Respondents within households were selected randomly.[40]

The response rate was better for the older age group sample:

- 1,236 responses or 82.4% for the 45 and older sample;
- 688 responses or 68.8% for the younger sample.

Since the same questionnaire items were administered to both samples, we designed the study so that the two samples could be analyzed separately or, after proper weighting to the age/gender proportions of the Canadian population outside Quebec, they could be analyzed at the level of the total population 25 years of age and older. The combined result would provide a representative profile of the views of Canadians outside Québec aged 25 years and older.[41]

We have made an effort to compare the achieved sample with 1991 Census data or other Statistics Canada data for more recent years, but with mixed results. Too often the categories reported do not precisely match those we have used and since we must use data only for those 25 years or older, the comparisons are limited. Age distributions match reasonably well, although after weighting by gender and age, our total sample somewhat under-represents the 65+ population (compared to the 1991 Census) and somewhat over-represents the under 35s (16.8% compared to 13.5% for the 65+ and 36.6% compared to 27.7% for the <35). The gender match is good, as is the case with residence ownership status (owning with and without mortgage). Where household income groups can be compared under $20,000 and $20,000-$29,999 the match is also good.

Exhibit 1 shows several selected features of respondents of the two samples The results selected here show that:

- The samples are both gender balanced.
- The majority in both samples is married, but a significant proportion of the younger sample (24%) is single.
- The younger sample has more years of education than the older sample, the latter having 22% of respondents who did not graduate from high school more among those over 65 years of age.
- The majority of the younger sample is under 35 years of age and the majority of the older sample is within the range of 45 to 64 years of age.

EXHIBIT 1 Selected Demographic Characteristics of the Two Samples Survey of the General Public

Characteristics	Sample Age 25-44 Years	Sample Age 45 and Older
	%	%
Age (on December 31, 1995)		
25-34 years of age	62	0
45-64 years of age	0	67
Mean Age	33.9	59.9
Gender		
Males	51	51
Females	49	49
Marital Status		
Married	55	64
Common-law	11	2
Single	24	8
Retired	*	40
Education		
Did not graduate from high school	7	22
Household Composition		
Adults only	38	85
Own Home		
Yes, with mortgage	51	24
Yes, without mortgage	10	54
Employment Status		
Employed full-time	65	32
Retired	*	40
Household Income Before Taxes		
Average income	$45,510	$38,860

*Less than 0.5%.

[39]The CFO Panel is a continuously maintained panel, broadly representative of Canadians across the country. Panelists participate from time to time in self-completion questionnaires on a variety of subjects. Back

[40]The universe for Sample 1 was defined as all Canadians residing outside Quebec who are 45 or older. The sampling operation followed 2 stages: Selection of a sample of households allocated by size of household within city size within region. Within each selected household, the one particular individual 45 years of age and older was randomly selected from among those eligible. Sample 2 followed a similar process. Back

[41]In the tables shown under separate cover, the two samples are reweighted by age and sex within region using census data, such that the older population sample (45+) reweights to 784 responses and the younger sample reweights to 1,140 responses. The total number of respondents-1,924-is the same for weighted and unweighted results. Back