Improving the Canada Pension Plan

A Report by the
National Council of Welfare

Autumn 1996

Canada

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FOREWORD

In February 1996, the federal, provincial and territorial governments published An Information Paper for Consultations on the Canada Pension Plan that previewed possible changes in the CPP that could take effect as early as 1997. The main proposals in the consultation paper were to cut a variety of CPP benefits and to raise contributions to the plan by workers and employers faster than needed in order to build up the Canada Pension Plan fund in years to come.

The National Council of Welfare took a strong stand against any reductions in benefits at a public consultation panel that was held in Montreal on May 3, 1996. The Council agreed with the federal government's own actuaries that gradual increases in CPP contribution rates are needed on a continuing basis, but it opposed the consultation paper's proposal for large increases over the next several years.

This report outlines our hopes for the Canada Pension Plan in more detail. It begins with a review of some of the myths and misconceptions about the Canada Pension Plan that have become an impediment to intelligent debate about the plan. Chapter 2 reviews proposals for "steady-state financing" of the CPP and recommends that governments look instead at the possibility of broadening the base of contributory earnings. Chapter 3 suggests some possible improvements in CPP benefits and roundly criticizes the cuts suggested in the consultation paper. The most significant of the cuts have already been rejected out of hand by the Government of Quebec in its own consultation paper on possible changes in the Quebec Pension Plan, the sister plan of the Canada Pension Plan. Chapter 4 contains a critique of the research that went into the CPP consultation paper as well as a review of the Council's long-standing concerns about the secretive ways governments exercise their stewardship over the CPP.

More detailed information about the Canada Pension Plan and the way it operates at the present time can be found in A Pension Primer, a report published by the National Council of Welfare this summer.

Much of the information about CPP contribution rates in this report was provided by the Chief Actuary in the Office of the Superintendent of Financial Institutions, the federal agency that oversees the financial health of the plan. The National Council of Welfare has long been impressed by the Chief Actuary's professionalism and willingness to share information. The assistance is very much appreciated.

I. MYTHS AND REALITIES

The Canada Pension Plan is one of Canada's most important social programs - and one of the most misunderstood.

The Canada Pension Plan and its sister plan, the Quebec Pension Plan, cover virtually all members of the paid labour force. Full-time workers, part-time workers with more than token earnings, and self-employed workers all are members. The two plans provide pension benefits to retired workers, survivor's benefits for spouses of deceased plan members, disability pensions, benefits to dependent children of deceased or disabled plan members, and lump-sum death benefits to defray the cost of funeral expenses.

Unlike most occupational pension plans, the CPP and QPP follow workers whenever they change jobs. Benefits are fully indexed to the Consumer Price Index of Statistics Canada so that long-time beneficiaries do not see their pension cheques eroded by inflation. There are special provisions that benefit parents - mostly women - who take time away from paid work while their children are young.

The two plans are a major source of income to seniors and are often the only major source of retirement income aside from the federal government's Old Age Security pension and Guaranteed Income Supplement.

Governments are also better off because of the Canada and Quebec Pension Plans. The federal government saves billions of dollars a year in Guaranteed Income Supplement and Spouse's Allowance payments to low-income seniors who receive CPP or QPP benefits. Provincial and territorial governments would be hard-pressed to avoid billions of dollars in welfare payments to low-income seniors if the plans did not exist.

Despite the many advantages of the Canada Pension Plan, it has been the object of continuing attacks by the radical right. Some people have even espoused a Chilean-style system of compulsory individual registered retirement savings plans as an alternative to the CPP. RRSPs have a role to play in a good retirement income system, but they could never replace the Canada Pension Plan.

Among other things, RRSPs can never guarantee a predetermined amount of retirement income, because they cannot guarantee a specific rate of return on investment over the long haul. Their ability to protect seniors against inflation is questionable. They are not designed to provide special assistance such as disability pensions or the special consideration given to parents who stay home while their children are young.

A retirement income system centred on registered retirement savings plans would require elaborate controls on the types of investments allowed and a greatly expanded system of government-sponsored insurance to protect people when the financial institutions that sponsor RRSPs fail. It would be difficult, if not impossible, to prevent people from cashing in their RRSPs early and exhausting their assets before they actually retired.

Nonetheless, governments have done a very poor job of promoting the Canada Pension Plan and countering the misinformation spread by the ideologues. The result has been widespread public concern about the way the CPP is run and widespread public doubts about its chances of surviving in the long term.

Three myths or misconceptions in particular have dogged the Canada Pension Plan over the years. Critics insist that the plan is not properly funded. They maintain that CPP funds have been loaned to the provinces at ridiculously low interest rates. And because of these alleged shortcomings, they foster the notion that the plan may not be around when the workers of today reach retirement age.

Here are the myths in more detail and the realities that all too often get drowned out by the babble.

<u>Myth #1: The Canada Pension Plan is "going broke" because it is not properly funded</u>. This myth presumably arose because the Canada Pension Plan is financed in an entirely different way from occupational pension plans. Occupational pension plans have to be fully funded - that is, they have to have a pool of investments large enough to cover the cost of pensions for all retired plan members for the rest of their lives and also the cost of all future pensions earned by plan members who are still in the labour force. Full funding is essential for occupational pension plans, because there is no guarantee that a business will survive year after year and no

guarantee that a business will have enough cash on hand year after year to cover the pension cheques it agreed to pay.

Governments are in an entirely different situation than private employers. First of all, governments are not about to go out of business, and as long as they continue to exist, there is no reason believe that the CPP is in danger. Secondly, it is not at all certain that private capital markets within Canada could absorb the huge amounts of capital that would be involved in full funding. The Chief Actuary in the Office of the Superintendent of Financial Institutions estimated that full funding as of December 31, 1995, would have required a CPP fund of $556 billion. A fund that large would be equal to 72 percent of the total value of goods and services produced in Canada in 1995.

Media accounts that allege that the CPP is going broke presume that the plan has to be fully funded. That simply is not true.

Myth #2: Money contributed to the CPP is being loaned to provincial governments at "bargain-basement" interest rates. The reality is that money in the CPP fund that is not immediately needed to pay benefits has traditionally been loaned to the provinces at interest rates equal to the rate on 20-year Government of Canada bonds. The interest rate is the same as the rate that the federal government needs to pay when it borrows money for its own use. The interest earned on the CPP fund overall at the present time is about 11 percent a year, hardly a bargain-basement rate.

It is possible to earn more than 11 percent a year in private money markets if the investments chosen all are winners. It is also possible to lose money on speculative investments that simply do not pan out. Pension plans have a responsibility to members to ensure a reasonable and secure rate of return. The long-standing financing arrangements for the CPP meet both these criteria.

Myth #3: The Canada Pension Plan may no longer be around when it comes time for younger Canadians to retire. This myth is predicated on the other two myths that imply gross mismanagement of the plan and its inevitable financial collapse. Since the first and second myths are not true, neither is the third. Unfortunately, public opinion polls suggest it is a deeply rooted, albeit deeply misguided feeling among younger Canadians. Some financial institutions, intentionally or otherwise, feed on this fear every year when they remind people of the huge amount of investments they will need for their retirement years.

All three of these myths have damaged the credibility of the Canada Pension Plan. Governments have been reluctant to take on the ideologues, even though they have an obvious interest and obligation to do so as stewards of the plan. The Canada Pension Plan Advisory Board, a citizens' group that reports to the Minister of Human Resources Development, made a series of recommendations to promote better understanding about the plan among ordinary Canadians in reports prepared in 1989 and 1991.[1] The recommendations have been largely ignored by governments.

In fact, governments have created a myth of their own in recent months: that the Canada Pension Plan is on the verge of becoming unaffordable. The clearest example of this is found in the consultation paper itself. Underlying the paper is a "doomsday" mentality that higher CPP contribution rates are urgently needed in the short term to avoid even higher rates years down the road.

The current contribution rate to the Canada Pension Plan is 5.6 percent of contributory earnings - 2.8 percent from workers and 2.8 percent from employers. The consultation paper warns that the combined contribution rate could go as high as 14.2 percent in the year 2030 when the baby boomers born after the Second World War are all retired.

The paper totally ignores the fact that the CPP contribution rate is low when compared to rates in most of the other countries which belong to the Organization for Economic Cooperation and Development.[2] The rate is far below the contribution rate for Social Security in the United States, our largest trading partner.

Table 1 on the next page compares the basic features of the Canada Pension Plan and U. S. Social Security in 1996. The U. S. contribution rate includes a levy of 2.9 percent for Medicare, the U. S. public health insurance program that covers a portion of medical and hospital expenses for seniors only. The levy for Medicare also applies to all earnings above $62,700 U.S.

TABLE 1

COMPARING THE CANADA PENSION PLAN AND SOCIAL SECURITY, 1996

	CPP (Canadian $)	Social Security (U. S. $)
Combined Worker-Employer Contribution Rate	5.6%	15.3%
Maximum Contributory Earnings	$35,400	$62,700
Maximum Annual Worker Contribution	$893.20	$4,796.55
Maximum Annual Employer Contribution	$893.20	$4,796.55
Maximum Annual Self-Employed Contribution	$1,786.40	$9,593.10
Maximum Annual Retirement Pension	$8,724.96	$14,976.00

The contribution rate in the United States is already higher than the "doomsday" rate of 14.2 percent for Canada in the year 2030 mentioned in the consultation paper, and the level of earnings subject to contributions and the maximum possible pension are both much higher than under the Canada Pension Plan. The upper limit of earnings under Social Security is $62,700 U.S. - or $85,900 in Canadian dollars at an exchange rate of 1.37.

Recommendation #1: Because there is widespread misinformation about the Canada Pension Plan, the federal, provincial and territorial governments should make special efforts to improve public understanding about the CPP and to dispel myths about the plan.

II. FINANCING THE CANADA PENSION PLAN

The Canada Pension Plan operates on "pay-as-you-go" financing. The money needed to pay today's CPP pensioners comes from contributions from today's workers and employers. The money for tomorrow's pensioners will come from tomorrow's workers and employers.

The original rate for CPP contributions was 3.6 percent of contributory earnings - 1.8 percent from workers and 1.8 percent from employers. From the beginning of the plan in 1966, it was clear that contribution rates would eventually have to be increased. The only questions were when the first increases would take place and how large they would be.

The federal and provincial governments kept putting off a decision on increases throughout the 1970s and into the 1980s. As it turned out, they waited nearly 20 years before they finally accepted the inevitable. The first increases in the contribution rate were approved in 1985 and took effect at the beginning of 1987.

Under the arrangements approved in 1985, governments agreed that there would be gradual increases in the contribution rate every year to support pay-as-you-go financing. The goal was to have enough money in the CPP fund to pay all current pensioners plus contingencies equal to two years' worth of benefits. Any money in addition to that would continue to be loaned to the provinces at the long-term Government of Canada bond rate.

Governments also agreed to publish a 25-year schedule of contribution rates based on the latest available estimates about demands on the CPP fund in years to come. The estimates include the latest projections of life expectancy, birth rates, immigration, earnings, prices and interest rates. The projections are done by the actuaries who work for the Office of the Superintendent of Financial Institutions in Ottawa and are updated every five years.

The federal and provincial governments agreed that they, too, would get together every five years to review the latest actuarial report and to make any adjustments in the 25-year schedule of contribution rates that are necessary to keep the plan on a sound financial footing. The first review took place in 1991 and the second review is taking place in 1996.

The latest actuarial report, dated December 31, 1993, did not reflect any changes in key economic or demographic assumptions. However, it reported that contributions to the CPP were lower than expected in 1993 because of the lingering effects of the last recession on earnings, and expenditures were higher than expected because of higher outlays for CPP disability pensions. The actuaries recommended a modest increase in the previous schedule of contribution rates.

Table 2 on the next page shows the final 20 years of the 25-year schedule of contribution rates adopted five years ago and the proposed new schedule based on the 1993 actuarial report. The right-hand column shows the additional contributions required because of the 1993 report.

The existing schedule would see contribution rates rise from 5.85 percent of contributory earnings in 1997 to 10.1 percent of contributory earnings in 2016 - 5.05 percent from workers and 5.05 percent from employers. The schedule based on the 1993 actuarial report would see the rate go from 5.99 percent in 1997 to 11.8 percent in 2016 - 5.9 percent from workers and 5.9 percent from employers.

The differences between the two schedules are minimal at first, but they gradually increase to 1.7 percentage points by 2016.

The approach of gradual increases adopted by the federal and provincial governments in 1985 was sensible. It meant that governments would stay abreast of developments affecting the Canada Pension Plan and update the 25-year schedule of contribution rates accordingly every five years. The approach also fit well with the realities of actuarial science. By their very nature, actuarial projections tend to be quite accurate in the short term and less accurate in the long term. The latest available life expectancy tables, for example, are a good guide to life expectancy during the next five or ten years. Whether they are a good guide to life expectancy in the year 2030 is anybody's guess.

TABLE 2

CPP CONTRIBUTION RATES, WORKERS AND EMPLOYERS COMBINED

	Rates Based on Previous Actuarial Report	Rates Based on 1993 Actuarial Report	Increase Due to Latest Report
1997	5.85	5.99	0.14
1998	6.10	6.38	0.28
1999	6.35	6.77	0.42
2000	6.60	7.16	0.56
2001	6.85	7.55	0.70
2002	7.10	7.88	0.78
2003	7.35	8.21	0.86
2004	7.60	8.54	0.94
2005	7.85	8.87	1.02
2006	8.10	9.20	1.10
2007	8.30	9.47	1.17
2008	8.50	9.74	1.24
2009	8.70	10.01	1.31
2010	8.90	10.28	1.38
2011	9.10	10.55	1.45
2012	9.30	10.80	1.50
2013	9.50	11.05	1.55
2014	9.70	11.30	1.60
2015	9.90	11.55	1.65
2016	10.10	11.80	1.70

Unexpectedly and for reasons unknown, the federal and provincial governments proposed a radical change in CPP contribution rates in the consultation paper that accompanied the 1996 review of rates. Instead of gradual increases in the contribution rate every year, the two levels of government proposed sharp increases within the next few years in hopes of reaching a "steady-state" contribution rate that would supposedly remain unchanged through the end of the next century. The proposals are shown in Table 3 on the next page.

For the purpose of Table 3, we phased in sharp increases over eight years to get to the steady-state rate in the year 2004. The figures in the final column represent the difference in rates between the recommendations in the 1993 actuarial report and the consultation paper proposals.

Basically, the consultation paper would have workers and employers pay higher contributions every year for the next 21 years in order to pay a bit less further down the road. There would be no relief until the year 2019, when the steady-state rate would be 12.2 percent and the rate under existing arrangements would be 12.4 percent.

It is not clear where the idea of steady-state financing originated, but it clearly was a sharp departure from the strategy outlined in a 1985 federal government paper entitled <u>The Canada Pension Plan: Keeping It Financially Healthy</u>. The paper had this to say about increases in the contribution rate:

> To meet the objective of putting the CPP on a firm financial footing for the future in the fairest and least disruptive way, it has been suggested that gradual increases in the contribution rate take effect each year, until the present rate of 3.6 per cent reaches approximately 11 per cent some time in the next 50 to 75 years. Suggestions as to the size of the annual contribution rate increases have typically ranged from 0.1 to 0.2 of a percentage point.
>
> In deciding upon the appropriate rate increases, and when they should start, careful consideration will have to be given to the impact which these increases will have on workers and employers and, in turn, on the economy in general.

The 1996 consultation paper does not explain why the arguments for gradual increases that were deemed to be "fairest" and "least disruptive" in 1985 are no longer valid in 1996.

TABLE 3

CPP CONTRIBUTION RATES, WORKERS AND EMPLOYERS COMBINED

	Rates Based on 1993 Actuarial Report	Proposal for "Steady-State" Rate	Increase (Decrease) Due to "Steady-State" Proposal
1997	5.99	6.425	0.435
1998	6.38	7.25	0.87
1999	6.77	8.075	1.305
2000	7.16	8.90	1.74
2001	7.55	9.725	2.175
2002	7.88	10.55	2.67
2003	8.21	11.375	3.165
2004	8.54	12.20	3.66
2005	8.87	12.20	3.33
2006	9.20	12.20	3.00
2007	9.47	12.20	2.73
2008	9.74	12.20	2.46
2009	10.01	12.20	2.19
2010	10.28	12.20	1.92
2011	10.55	12.20	1.65
2012	10.80	12.20	1.40
2013	11.05	12.20	1.15
2014	11.30	12.20	0.90
2015	11.55	12.20	0.65
2016	11.80	12.20	0.40
2017	12.00	12.20	0.20
2018	12.20	12.20	0
2019	12.40	12.20	(0.20)

The consultation paper leaves the impression that the steady-state rate of 12.2 percent could last through the end of the next century. It is only when readers get to Appendix C of the paper that they learn that the steady-state rate depends in large part on the earnings of the CPP fund and that adjustments in the rate may be required in the future.

Even Appendix C does not concede the most fundamental reality about steady-state rates: they depend on the same actuarial assumptions made by the same government experts as the gradual increases proposed in successive CPP actuarial reports. In other words, if the Canadian economy changes substantially any time in the next 100 years, or if there are major changes in life expectancy, birth rates or immigration rates, the steady-state rate of 12.2 percent could be subject to major changes. To suggest otherwise, as the consultation paper does, is either foolish or dishonest.

The consultation paper presents three other arguments in favour of steady-state financing. The National Council of Welfare does not find any of them compelling based on the limited information provided in the paper.

The first argument is that rapid increases in the contribution rate would allow the CPP to build up a larger fund than is needed in the foreseeable future. Some or all of the additional money could be invested in private money markets instead of being loaned to provincial governments.

The obvious question raised, but never answered in the consultation paper is whether the CPP fund could be guaranteed a higher rate of return by going into the market. The paper also raises, but never answers the question of guidelines for market investments and the overall impact of a larger CPP fund on Canada's capital markets. In fact, the entire section of the consultation paper on possible new investment policies for the Canada Pension Plan is only four paragraphs long.

<u>Recommendation #2: Governments should undertake a full-fledged review of alternative investment strategies for the Canada Pension Plan before making any changes in the current strategy.</u>

A second argument presented in favour of steady-state financing is that a larger CPP fund would restore confidence in the Canada Pension Plan among younger Canadians who believe the myth that the CPP could disappear before they reach the age of retirement. At one point, the consultation paper states:

> Because the CPP is financed by each working generation paying for the pensions of the previous generation, today's youth will need to pay much more into the CPP than their parents paid, yet receive no more in the way of benefits. More than anything else, this is why Canadians are concerned about the future sustainability of the CPP.

The claim is a startling one, because steady-state financing would force the youth of today to pay even more into the CPP than existing arrangements. In this sense, steady-state financing could decrease, rather than increase public support for the CPP.

The final and most interesting argument in favour of faster increases in CPP contributions is the argument based on equity between the generations. Because the Canada Pension Plan started only in 1966, today's seniors were not able to contribute to the plan during their entire lives in the paid labour force. The CPP contributions they actually paid covered only a portion of the cost of their CPP pensions. Had the plan been in existence prior to 1966, they would no doubt have contributed willingly to help provide for their own retirement incomes.

The sharper increases in contributions associated with a steady-steady rate would help redress the imbalance between the generations, the consultation paper argues. Today's workers would pay a fairer share of the future cost of their own pensions rather than simply paying whatever is necessary to cover the cost of pensions for today's seniors.

The argument of equity between the generations, however, is much more complex than suggested by the consultation paper. Many of the first seniors who retired with CPP pensions, for example, were people who suffered through the Great Depression or people who served Canada during the Second World War or Korean War. To try to measure their contributions in dollars alone seems small-minded.

There is also the companion argument based on social cohesion. Society as a whole supports a host of government-sponsored programs through taxes or contributions - not because all people get back as much as they contributed, but because society as a whole is the winner. That is one reason taxes on the population in general pay the cost of our school system. People without children and older people whose children have already finished school are taxed to support public education in Canada. To see education taxes only as a transfer from the old to the young would be short-sighted in the extreme.

All in all, the National Council of Welfare does not see any arguments in the consultation paper that would lead us to support rapid increases in the contribution rate over the next six to eight years simply to try to stabilize the rate at a very high level well into the next century. We much prefer the approach of gradual increases first embraced by governments in 1985.

<u>Recommendation #3: Governments should continue making the gradual increases in CPP contribution rates recommended by the Chief Actuary in the Office of the Superintendent of Financial Institutions to keep the plan on a solid financial footing</u>.

Related to the issue of CPP contribution rates is the issue of the CPP earnings base. The National Council of Welfare is disappointed that the size of the earnings base is not seriously considered in the consultation paper.

Under current arrangements, CPP contributions apply to a relatively narrow band of earnings. With a larger earnings base, contribution rates would not have to rise so quickly. The trade-off would be particularly appealing to the Council, because it would soften the impact on workers with lower than average wages.

In 1996, the range of contributory earnings begins at the Year's Basic Exemption of $3,500 and goes up to the Year's Maximum Pensionable Earnings or YMPE of $35,400, a rough approximation of the average industrial wage. We already noted in Table 1 in the previous chapter that the upper limit for contributory earnings in the U. S. Social Security program is $62,700 U.S. or $85,900 Canadian.

We believe it would be in the interest of Canadians to explore the impact of expanding the upper limit of contributory earnings to the Canada Pension Plan, perhaps even doubling the limit to $70,800. We asked the Chief Actuary to determine the impact of such a change on contribution rates year by year well into the next century. The results are shown in Table 4.

TABLE 4

CPP COMBINED WORKER-EMPLOYER CONTRIBUTION RATES USING DIFFERENT EARNINGS BASES

	Contributory Earnings up to Average Wage	Contributory Earnings to Twice Average Wage
2000	7.16	6.12
2005	8.87	6.85
2010	10.28	7.68
2015	11.55	8.57
2020	12.60	9.39
2025	13.40	10.07
2030	13.91	10.56

The first column shows contribution rates for selected years based on earnings under the current system. The rates are based on the 1993 actuarial report on the CPP and are the same as shown in the previous two tables. The second column shows what would happen to rates if contributions applied to earnings up to twice the average wage or YMPE.

It is clear from the projections that a broader earnings base would allow smaller increases in the contribution rate. Switching to a base that extended to twice the average wage would allow rates to be roughly one quarter lower over time than rates under the current system.

Broadening the earnings base of the Canada Pension Plan would not result in any more money - or any less money - going into the plan from workers and employers collectively. The total amount of contributions would be the same for any given year. However, there would be a major redistribution of the burden of contributions. Workers with total earnings up to the Year's Maximum Pensionable Earnings and their employers would pay less in CPP contributions. Workers who earned noticeably more than the current YMPE and their employers would pay more.

Table 5 shows the contributions required in the year 2030 for workers at different levels of earnings under the current earnings base and under our proposal to double the earnings base to twice the YMPE. All the figures are shown in 1996 dollars to make it easier to assess the financial impact of the proposals. The figures are gross contributions before tax credits. Workers get a tax saving on their federal and provincial income taxes that averages about 26 percent of the amount of their CPP contributions.

TABLE 5

CPP CONTRIBUTIONS IN 2030 UNDER DIFFERENT EARNINGS BASES, WORKERS' SHARE OF CONTRIBUTIONS ONLY

Annual Earnings	6.955% of Earnings to YMPE	5.28% of Earnings to Twice YMPE	Increase (Decrease) in Contributions
½ YMPE ($17,700)	$988	$750	($238)
YMPE ($35,400)	$2,219	$1,684	($534)
1½ YMPE ($53,100)	$2,219	$2,619	$400
Twice YMPE ($70,800)	$2,219	$3,553	$1,335
(All figures are in 1996 dollars. Totals may not add due to rounding.)			

Workers at half the YMPE would pay $238 a year less in CPP contributions if the earnings base was doubled, and workers at the YMPE would save $534. Meanwhile, workers at 1½ times the YMPE would pay an additional $400 a year in contributions, and workers at twice the YMPE would pay $1,335 a year more.

Expanding the earnings base of the Canada Pension Plan would have an obvious appeal to lower-wage workers and no appeal at all to higher-wage workers. However, this situation could change if an increase in CPP contributions were coupled with an increase in CPP benefits. This argument will be developed in detail in the next chapter.

Recommendation #4: Governments should explore the possibility of broadening the earnings base of the Canada Pension Plan to make it easier to improve benefits from the plan.

III. IMPROVING THE CANADA AND QUEBEC PENSION PLANS

The National Council of Welfare has long regarded improving benefits from the Canada and Quebec Pension Plans as the single most important task governments could undertake to develop a more rational retirement income system and wipe out poverty among the elderly at the same time.

Sadly, the CPP consultation paper contains not one single suggestion for improving benefits. The portions of the paper dealing with benefits deal exclusively with possible cuts. Most of the cuts were rejected out of hand by the Government of Quebec in its own consultation paper on the Quebec Pension Plan this year entitled Pour vous et vos enfants: garantir l'avenir du Régime de rentes du Québec. The Quebec consultation paper said the major changes suggested by other governments would call into question the very idea of the QPP.

Although the Canada and Quebec Pension Plans are totally separate and have different ways of investing surplus funds, the benefits they provide are identical for the most part. Over the years, governments have seen the value of maintaining similar levels of benefits.

The National Council of Welfare made numerous recommendations for improving benefits from the Canada and Quebec Pension Plans in a 1990 report entitled Pension Reform. In this chapter, we return to several of the major recommendations in that report. We also summarize our strong objections to most of the cuts proposed in the consultation paper.

Boosting CPP-QPP Benefits

The Canada and Quebec Pension Plans now provide more than $14 billion a year in retirement benefits to three million seniors. Impressive as those figures may be, the simple fact is that many CPP or QPP recipients have to rely on the Guaranteed Income Supplement to make ends meet. In some cases, even hefty GIS payments are not enough to get pensioners over the poverty line.

The National Council of Welfare believes it is fundamentally wrong that a public pension program set up to cover the entire paid labour force is incapable of producing benefits large enough to keep most of its beneficiaries out of poverty.

The two plans were designed to provide retirement income equal to 25 percent of career earnings up to the average industrial wage. Governments set the limit at 25 percent in the expectation that occupational pension plans, registered retirement savings plans and other personal savings and investments would provide the additional income needed to give pensioners a decent standard of living.

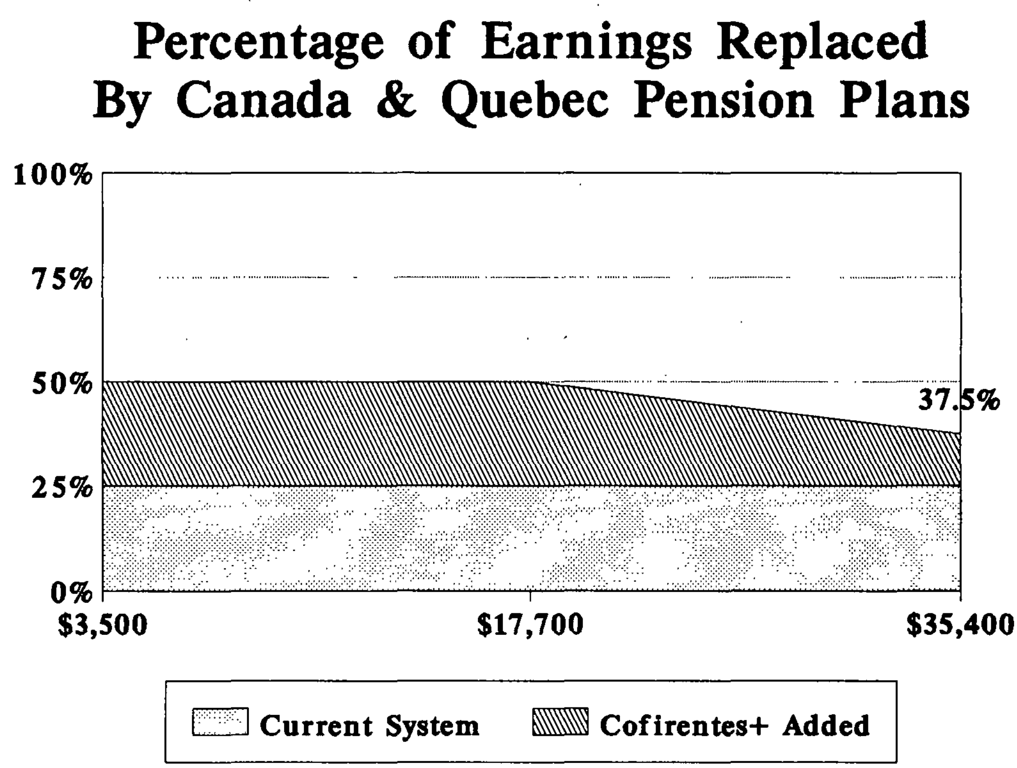
Unfortunately, this expectation turned out to be unrealistic. Fewer than half the paid workers in the labour force belong to occupational plans, and there is no reason to believe the situation will improve in the future. Registered retirement savings plans and other individual methods of retirement savings continue to be used most extensively by well-to-do Canadians.[3]

Once again, the National Council of Welfare urges governments to put aside their past reservations and take a serious look at expanding the Canada and Quebec Pension Plans. One of the most promising options suggested over the years was the Cofirentes+ approach proposed in 1977 in a study for the Quebec government.[4]

Cofirentes+ involves a two-stage formula that would see the CPP and QPP replace 50 percent of earnings up to <u>half</u> the average wage and 25 percent of earnings thereafter up to the average wage. The effect of the two steps combined would be a pension that replaces 37.5 percent of earnings at the average wage. By way of comparison, the U. S. Social Security program replaces 42 percent of earnings at the average wage.

Graph A on the next page illustrates the 25 percent of earnings replaced by the CPP and QPP at the present time and the additional earnings that would be replaced under Cofirentes+. The figures at the bottom of the graph show the earnings limits of the CPP and QPP in 1996: $3,500 is the point where people start contributing to the plans, $17,700 is half the average wage and $35,400 the average wage.

Given our mandate as advocates for low-income Canadians, the National Council of Welfare is naturally receptive to proposals that provide the largest increases to those most in need. Cofirentes+ would do this, and it would also give sizable increases in benefits to all contributors to the CPP and QPP.



Graph A

For people with career earnings at half the average wage, Cofirentes+ would have raised the CPP or QPP retirement pension to $727.08 a month from $363.54 a month in 1996. For people with career earnings at the average wage or above, the pension would have gone up to $1,090.62 a month from $727.08. The Cofirentes+ formula would also increase disability pensions and survivor pensions, because both are calculated, at least in part, on the size of a contributor's retirement pension.

Adoption of the Cofirentes+ formula would lead to a sharp reduction in poverty among seniors, and the federal government would be spending substantially less on the Guaranteed Income Supplement and Spouse's Allowance.

Table 6 shows the impact of Cofirentes+ on singles and couples with one CPP or QPP pension based on career earnings at the average wage. Under the current system, both the single person and the couple need substantial Guaranteed Income Supplement payments even to approach the poverty line for a city of half a million or more. Under Cofirentes+, both the single pensioner and the couple get well above the poverty line, and GIS requirements are eliminated or substantially reduced.

TABLE 6

RETIREMENT INCOMES IN 1995 OF SENIORS WITH CAREER EARNINGS AT THE AVERAGE WAGE

	Current System		Cofirentes+
Single Person			
CPP-QPP Income	$8,558		$12,837
Old Age Security	$4,690		$4,690
Guaranteed Income Supplement	$1,410		$0
Total Income	$14,658		$17,527
Poverty Line for a Large City		$15,819	
Couple with One CPP-QPP Pension			
CPP-QPP Income	$8,558		$12,837
Old Age Security	$9,381		$9,381
Guaranteed Income Supplement	$3,109		$1,021
Total Income	$21,049		$23,239
Poverty Line for a Large City		$21,442	

The results are slightly different for people with career earnings at half the average wage as shown in Table 7. Both the single person and the couple still need help from the Guaranteed Income Supplement, but not nearly as much as under the current system. Meanwhile, the higher benefits from Cofirentes+ boost their retirement incomes very close to the poverty line.

TABLE 7

RETIREMENT INCOMES IN 1995 OF SENIORS WITH CAREER EARNINGS AT HALF THE AVERAGE WAGE

	Single Person		
	Current System		Cofirentes+
CPP-QPP Income	$4,279		$8,558
Old Age Security	$4,690		$4,690
Guaranteed Income Supplement	$3,498		$1,410
Total Income	$12,467		$14,658
Poverty Line for a Large City		$15,819	
	Couple with One CPP-QPP Pension		
CPP-QPP Income	$4,279		$8,558
Old Age Security	$9,381		$9,381
Guaranteed Income Supplement	$5,197		$3,109
Total Income	$18,857		$21,049
Poverty Line for a Large City		$21,442	

The major increase in benefits under the Cofirentes+ approach would naturally require corresponding increases in contribution rates. The National Council of Welfare asked the Chief

Actuary in the Office of the Superintendent of Financial Institutions to calculate the increases needed under several different scenarios.

Table 8 compares the increases that would be required under the 25-year schedule of gradual increases proposed in the latest CPP actuarial report with the increases required if benefits were increased under the Cofirentes+ formula. The particular scenario described in the table assumes that the formula would be phased in over a period of 40 years. People who retired during the next 40 years would get blended CPP pensions - benefits earned through 1996 would be based on the current system, and benefits earned in 1997 and later years would be based on Cofirentes+.

TABLE 8

CANADA PENSION PLAN COMBINED CONTRIBUTION RATES UNDER CURRENT ARRANGEMENTS AND COFIRENTES+

	Rates Required to Pay Current CPP Benefits	Rates Required for Cofirentes+
2000	7.16	7.48
2005	8.87	9.67
2010	10.28	11.82
2015	11.55	14.01
2020	12.60	16.21
2025	13.40	18.29
2030	13.91	20.06

If benefits were not increased, the contribution rate for workers and employers combined would rise from 7.16 percent of contributory earnings in 2000 to 13.91 percent of contributory earnings in 2030. If benefits under Cofirentes+ were phased in over 40 years, the rate would rise from 7.48 percent in 2000 to 20.06 percent in 2030.

A contribution rate of 20.06 seems unrealistically high, so we asked the Chief Actuary to calculate the increases needed to support Cofirentes+ if the earnings base of the Canada Pension Plan was increased at the same time to twice the Year's Maximum Pensionable Earnings - a proposal described in the previous chapter. The results are shown in Table 9.

TABLE 9

CPP COMBINED CONTRIBUTION RATES FOR COFIRENTES+ USING DIFFERENT EARNINGS BASES

	Contributory Earnings to Current YMPE	Contributory Earnings to Twice YMPE
2000	7.48	6.36
2005	9.67	7.51
2010	11.82	8.87
2015	14.01	10.43
2020	16.21	12.15
2025	18.29	13.82
2030	20.06	15.27

The broader base of contributory earnings takes much of the sting out of higher contribution rates. The peak rate shown in the table under the current earnings base would be 20.06 in 2030. Doubling the earnings base would drop the rate by almost one quarter to 15.27 percent.

A combined contribution rate of 15.27 percent is probably sustainable in the long run, because it is comparable to the contribution rates already required by Social Security in the United States. At the same time, we believe Canadians should be able to look at several options for higher CPP benefits and broader earnings bases and the way they would affect their own contributions and benefits.

Recommendation #5: Governments should prepare a range of options for raising CPP benefits for consideration by Canadians, including increasing benefits based on the Cofirentes+ formula and broadening the base of contributory earnings to twice the average wage.

Early Retirement Without Penalty

The normal age of retirement under the Canada and Quebec Pension Plans is 65. Both plans allow contributors to retire as early as age 60, but only if they pay a "penalty" of one-half of one percent of the normal retirement pension for each month prior to age 65.

People who retire at age 60, for example, retire 60 months early and thereby lose 30 percent of their full monthly CPP or QPP pension. The losses are permanent and continue even after the pensioners turn 65.

Penalties for early retirement are not unusual in pension plans. The idea is that people get the same accumulated lifetime pension benefits on average by taking a full pension for life at age 65 or a reduced pension for life at age 60.

Having said that, the specific requirements of the Canada and Quebec Pension Plans regarding the age of retirement appear unduly strict. Both plans are based on the premise that Canadians would normally work 47 years in the paid labour force - they would start working at age 18 and continue until age 65.

The two plans have a "general drop-out" provision that allows people to disregard up to seven years of low earnings or no earnings for pension purposes. Even with the drop-out, however, the plans assume careers that last 40 years.

The best occupational pension plans are far more generous. The superannuation plan for federal public servants, for example, allows full retirement benefits as early as age 55 with 30 years of service. Some other plans use a formula known as the "rule of 86," where a full pension is payable as soon as a worker's age plus years of service equal 86.

The National Council of Welfare is convinced that the Canada and Quebec Pension Plans can give workers a better deal than they do at the present time, and we believe giving workers the option of retirement at age 60 is good public policy.

Older workers who lose their jobs are the ones most likely to have trouble finding new jobs. The federal government has tried to address the problem of unemployed older workers, but its efforts to date have been largely unsuccessful. The plain truth is that make-work jobs are the best many workers nearing retirement can hope for if they are laid off or if their employers go out of business.

Early retirement is fairer to workers who enter the labour force immediately after high school. Under the current system, people who start work at age 18 and retire at 65 put in 47 years in the labour force and pay contributions to the CPP or QPP for 47 years before getting full retirement benefits at age 65. Meanwhile, professionals who go to university and then do post-graduate work may start their careers at age 25, contribute only 40 years to the plans and get full CPP or QPP benefits at age 65. They are not penalized for starting to work seven years later, because they can disregard the seven years by virtue of the general drop-out.

Workers who enter the labour force before age 20 are also the ones most likely to be in jobs that are physically demanding. Early retirement would certainly be appealing to construction workers and workers in heavy industries who are worn out by the time they reach their late fifties.

There are several ways the Canada Pension Plan could allow early retirement without penalty. One possibility would be allowing early retirement at age 60, provided workers had 40 years of contributions. The 40 years could include "child-rearing drop-out" years that are described in the next section of this chapter.

<u>Recommendation #6: Governments should drop the "penalties" for early retirement that now exist in the Canada Pension Plan and allow retirement without penalty at age 60</u>.

Expanding the Child-Rearing Drop-Out

Both the Canada and Quebec Pension Plans have a provision known as the child-rearing drop-out that was designed for parents who forego opportunities in the paid labour force to stay at home while their children are young.

The provision allows parents to disregard, for the purpose of future pension benefits, any years of low earnings or no earnings when their children were under the age of seven. For example, a mother with two children who stayed home for ten years while one or both of her children were under seven and who then worked 30 years in the paid labour force would qualify for a full CPP or QPP pension. She would not lose benefits because of her ten years away from the workplace.

The child-rearing drop-out is in addition to the general drop-out of low-wage or no-wage years that is available to all CPP and QPP contributors.

The National Council of Welfare believes that society owes financial recognition not only to parents who stay home to care for young children, but also to adults who stay home to care for disabled and infirm relatives of any age who would otherwise have to be institutionalized. We would like to see benefits similar to the child-rearing drop-out available to these people. When the change is made, the name of the benefit should be changed to reflect its broader scope. One possibility might be the "family responsibility drop-out."

<u>Recommendation #7: The Canada Pension Plan should provide benefits similar to the child-rearing drop-out for adults who forego opportunities in the paid labour force to care for disabled or infirm relatives</u>.

Possible Cuts in CPP Benefits

The National Council of Welfare is concerned by the suggestion running through much of the consultation paper that cuts in benefits of one kind or another are a reasonable way of keeping the Canada Pension Plan financially sound. We could not disagree more.

One of the options mentioned in the consultation paper is reducing the maximum retirement pension to 22.5 percent of pensionable earnings from the current level of 25 percent. Such a move would be in the opposite direction of our proposals for an increase in benefits. The Quebec consultation paper said any cut in benefits would run the risk of impoverishing pensioners who did not belong to occupational pension plans during their working lives.

Just as an increase in CPP or QPP benefits would save the federal government many millions of dollars a year in Guaranteed Income Supplement payments, cuts in benefits would add millions of dollars to the amount required for GIS payments. A portion of the income of low-income seniors that now comes from CPP would be shifted to the GIS. That in turn would add to the federal deficit.

The consultation paper makes absolutely no mention of the possibility of higher GIS payments. Even more shocking is the fact that many months after the publication of the consultation paper, the federal government still has not said how much more it would pay for the GIS if CPP benefits were cut to 22.5 percent of pensionable earnings.

The National Council of Welfare estimates that the additional cost to the federal treasury would be in the order of $270 million a year. Our estimate is based on data on low-income seniors from the latest available Statistics Canada Survey of Consumer Finances for 1994.[5] It is the best estimate we can make in the absence of detailed data from the Finance Department or the Department of Human Resources Development.

Along similar lines, the consultation paper has little if anything to say about the effects of other proposed cuts in CPP benefits. The paper does estimate the aggregate savings of most of the cuts on outlays from the CPP fund, but it makes absolutely no mention of the impact on individual pensioners. In most cases, women would be at greater risk than men because they have less secure attachments to the labour force, they earn significantly less than men on average, and they have a longer life expectancy than men.

The consultation paper's failure to examine the impact of possible cuts on women and men is contrary to the federal government's own commitment to gender-based analysis of proposed policies and legislation. The commitment was underlined in a 1995 publication entitled Setting the Stage for the Next Century: The Federal Plan for Gender Equality and in the

Platform for Action adopted at the 4th United Nations World Conference on Women in Beijing in September 1995.[6]

Here are some of the major cuts proposed in the consultation paper and our concerns about each. For purposes of comparison, Quebec's concerns about the impact of comparable changes in the Quebec Pension Plan are included.[7]

- Reducing the general drop-out provision. The current system presumes a normal career of 47 years and allows up to seven years of low earnings or no earnings to be excluded from the calculation of pension entitlements. Seven years is probably not enough in today's uncertain labour market, and reducing the drop-out to five years would be a step in the wrong direction. Quebec said a shorter drop-out period would penalize people whose careers included long periods of study or unemployment.

- Increasing the normal age of retirement to 67. This does not strike us as good labour market policy, particularly at a time of relatively high unemployment among older workers. Some of the savings would probably be offset by increased reliance on welfare. Keeping more older workers in the labour force would effectively take away jobs from younger workers. Quebec said it would be difficult to envision such a measure in light of current unemployment rates.

- Stepping away from full indexing of benefits. This would be unfair to seniors who rely for the most part on fixed incomes. It is also contrary to the promise of full indexing made in the 1996 federal budget speech concerning the proposed new Seniors Benefit. Quebec said doing away with full indexation would have a major impact on low-income people and would penalize women more than men because of their longer life expectancies.

- Cutting the Year's Basic Exemption. This is the one proposal in the consultation paper that would be grossly unfair to all workers at the lower end of the earnings scale because the impact on low-wage workers would be disproportionately high. Cutting the exemption would also add to the administrative burden on business, particularly small business. One of the purposes of the exemption is to exclude people with no real attachment to the paid labour force from contributing to the Canada Pension Plan or claiming benefits.

The Quebec consultation paper broached the idea of reducing the size of the exemption on a sliding scale: the exemption would be $3,500 for workers with only $3,500 in earnings but would disappear entirely for workers at the average wage or higher.

The National Council of Welfare believes the Quebec proposal would add to the administrative burdens on employers. We believe best way to enlarge the earnings base is at the upper end of the income scale, and that is why we recommended looking at doubling the Year's Maximum Pensionable Earnings earlier in this report.

Recommendation #8: Governments should reject the cuts in benefits proposed in the CPP consultation paper.

Putting the Squeeze on People with Disabilities

One of the reasons for increases in contribution rates above those approved by governments five years ago was an unexpected increase in the cost of disability pensions under the Canada Pension Plan. The 1993 actuarial report assumed that a higher incidence of disability would be a permanent feature of the plan.

In reality, the number of new CPP disability cases appears to have peaked in 1994. The average monthly number of new cases fell from 6,059 in 1994 to 3,459 in 1995 and will likely be even lower in 1996.[8] The most recent figures suggest that the level of new cases has returned to where it was in the late 1980s.

The consultation paper acknowledges that the growth in the disability caseload had nearly ceased by the end of 1995, and it says that past and future administrative measures should reduce projected CPP expenditures in the long run.

The paper also proposes several types of reductions in CPP disability benefits that might be able to shave projected CPP expenditures by three to five percent in the year 2030. Some of the proposals appear to have merit, and some appear to be little more than mean-spirited ways of putting the squeeze on people with disabilities.

What is most lacking in the consultation paper is any effort to address the larger issues of disability insurance that have been debated off and on for many years. The idea of taking disability pensions out of the Canada Pension Plan and creating a broader national disability insurance plan has been around for at least 20 years. Rather than tinkering with disability pensions at the present time, the federal, provincial and territorial governments should take a serious look at possible new directions for the future.

Provincial governments are already thinking along these lines. In a report to Premiers in December 1995, the Ministerial Council on Social Policy Reform and Renewal recommended a close look at the idea of consolidating income support for individuals with long-term and severe disabilities into a single national program.

<u>Recommendation #9: Governments should hold off any changes in CPP disability pensions pending a wide-ranging review of disability insurance programs, including the possibility of a more comprehensive disability insurance program</u>.

IV. PITFALLS IN THE PROCESS OF CPP REFORM

The Canada Pension Plan is run by governments, but it is not financed with government money. Governments are only stewards of the money contributed by workers and employers. Under the circumstances, it seems only fair that workers and employers should have a huge say in how the plan is run. And governments have a special obligation to listen to what ordinary people are saying.

In the current review of the Canada Pension Plan, the federal, provincial and territorial governments acted wisely by creating a special study group headed by David Walker, M.P. for Winnipeg North Centre, to travel across the country and receive submissions on the consultation paper. Representations to the committee reportedly caused governments to think twice about cuts in a variety of CPP benefits.

However, the National Council of Welfare is greatly concerned about the poor quality of the research that went into the CPP consultation paper in the first instance and has long-standing concerns about the cavalier approach taken by governments when it comes to decisions about the CPP.

Policies for the CPP, like many other social policies in Canada, are developed behind closed doors. No public debate went into the preparation of the consultation paper. Federal, provincial and territorial Ministers of Finance decided on their own at a closed-door meeting what proposals that would put forward for public discussion. The doors were also closed to the public the next time the Ministers got together to discuss the Canada Pension Plan.

Secrecy seems to be the rule for federal-provincial dealings, but it is particularly inappropriate in the case of the Canada Pension Plan. The plan can only be changed with the approval of the federal government and two-thirds of the provinces with two-thirds of the population. The National Council of Welfare believes that Canadians have a right to know how their respective governments stand on the all the major issues of CPP reform.

People should also have the opportunity to have an influence on the decision-making process up until the time that proposed changes are ratified by Ottawa and the required number of provincial governments. This was certainly not the case in the last round of CPP reform in 1987. A package of changes was developed behind closed doors by the federal and provincial governments, announced to the public as a fait accompli and incorporated in federal legislation to amend the CPP. When the legislation passed second reading in the Commons and went to committee for detailed study, witnesses were told that changes in the bill could not be considered because the legislation was the result of a federal-provincial consensus. Although MPs did yield a bit on one issue, the bill became law in more or less its original form.

Recommendation #10: Future federal-provincial meetings on the Canada Pension Plan should be open to the public so ordinary Canadians can see what kind of changes in the CPP their elected representatives are prepared to support.

Recommendation #11: Members of Parliament should be allowed to adopt amendments to federal legislation to amend the Canada Pension Plan - even if it means going back to provincial and territorial governments to seek their agreement on the amendments.

The other major concern of the National Council of Welfare is the dismal quality of the research that went into the consultation paper. The paper has been roundly criticized in social policy circles and is most charitably described as incomplete. We regard the paper as misleading and manipulative and a disservice to the governments who commissioned it. It is a faint shadow of the useful and thoughtful work on pension reform done by governments in the early 1980s.

Our complaints about the consultation paper include the following:

- The paper outlined a variety of cuts in CPP benefits and not one single improvement. With respect to financial arrangements for the CPP, it ignored the federal government's own actuaries and relegated their recommendations to an appendix.

- The paper is devoid of information about the impact of cuts on recipients of CPP benefits. There is cursory information about the financial impact on the CPP fund, but virtually nothing about the impact on real people. The paper also breached the federal government's own guidelines that require an analysis of the impact of new programs on women and men.

- There is no mention of additional burdens that governments might face if CPP benefits were cut for poor seniors. Many months after the publication of the consultation paper, the federal government had still not said what additional costs it would face in Guaranteed Income Supplement payments if CPP benefits were cut.

- The paper uses scare tactics to manipulate Canadians into supporting sharp increases in the CPP contribution rate in the short term to avoid a long-term rate of 14.2 percent. There is not one mention of contribution rates in the United States or other countries that are already well above Canadian rates.

- The main table in Appendix C of the report misrepresents the additional cost of individual CPP contributions under the proposals for steady-state financing. It compares the cost of current arrangements with the cost of steady-state financing coupled with a ten percent reduction in benefits. People who are not experts in pension policy might miss the ten percent reduction, because it appears only in a footnote to the table, not in the text.

- The paper implies that steady-state financing means CPP contribution rates would not have to change through the end of the next century. No one with any expertise in pension policy would ever offer that kind of guarantee. For governments to make such a claim is either foolish or dishonest.

The consultation paper is a document written at public expense by governments that are supposed to have the interest of Canadians in mind. Its myriad shortcomings are unacceptable.

Given the many deficiencies of the consultation paper and the apparent disinterest of the federal Finance Department in improving the Canada Pension Plan for the benefit of Canadians, we believe responsibility for the plan at the federal level should be transferred to the Department of Human Resources Development.

Human Resources Development already has considerable expertise in pension policy and income security programs for seniors. It is already responsible for the Old Age Security pension, the Guaranteed Income Supplement and the Spouse's Allowance, and it administers the benefits side of the Canada Pension Plan. It is certainly capable of assuming responsibility for the financial side of the CPP with the help of the Chief Actuary in the Office of the Superintendent of Financial Institutions.

Recommendation #12: The Prime Minister should remove the Finance Department as the federal government's lead Department on the Canada Pension Plan and replace it with the Department of Human Resources Development.

Recommendation #13: The Department of Human Resources Development should give priority to creating and maintaining a database for research on the Canada Pension Plan. The main purpose of the database would be to assess the financial impact of the plan and proposed changes in the plan on men and women in different family circumstances and income groups.

CONCLUSION AND SUMMARY OF RECOMMENDATIONS

The National Council of Welfare is convinced that the best way to ensure decent retirement incomes for all Canadians is to improve benefits under the Canada and Quebec Pension Plans. No other alternative even comes close.

Old Age Security and the Guaranteed Income Supplement remain an important source of income for most Canadians 65 and older, but both are financed entirely by the federal government from tax dollars. The 1996 federal budget speech that announced plans to combine the two programs into a new Seniors Benefit in the year 2001 also made it clear that Ottawa wants to spend proportionately less, rather than more on seniors in years to come.[9]

Occupational pension plans are an important source of income for people lucky enough to have them, but they covered only 44.6 percent of paid workers as of 1993.[10] Coverage has not improved in the last ten years, and there is no reason to expect it will improve in the next ten years.

Registered retirement savings plans are an attractive option for well-to-do Canadians, but they provide few benefits to poor Canadians, according to statistics compiled by Revenue Canada. Some people still dream of RRSPs as the answer to all our pension problems. Their dream is our worst nightmare.

When all is said and done, we are left with the Canada and Quebec Pension Plans as the only realistic avenue for reform.

In summary, the National Council of Welfare makes the following recommendations to governments regarding the Canada Pension Plan. In light of the long-standing similarities in the benefits offered by the Canada and Quebec Pension Plans, we would hope that our recommendations are also considered by the Government of Quebec as possible improvements in the Quebec Pension Plan.

1. Because there is widespread misinformation about the Canada Pension Plan, the federal, provincial and territorial governments should make special efforts to improve public understanding about the CPP and to dispel myths about the plan.

2. Governments should undertake a full-fledged review of alternative investment strategies for the Canada Pension Plan before making any changes in the current strategy.

3. Governments should continue making the gradual increases in CPP contribution rates recommended by the Chief Actuary in the Office of the Superintendent of Financial Institutions to keep the plan on a solid financial footing.

4. Governments should explore the possibility of broadening the earnings base of the Canada Pension Plan to make it easier to improve benefits from the plan.

5. Governments should prepare a range of options for raising Canada Pension Plan benefits for consideration by Canadians, including benefits based on the Cofirentes+ formula and broadening the base of contributory earnings to twice the average wage.

6. Governments should drop the "penalties" for early retirement that now exist in the Canada Pension Plan and allow retirement without penalty at age 60.

7. The Canada Pension Plan should provide benefits similar to the child-rearing drop-out for adults who forego opportunities in the paid labour force to care for disabled or infirm relatives.

8. Governments should reject the cuts in benefits proposed in the CPP consultation paper.

9. Governments should hold off any changes in CPP disability pensions pending a wide-ranging review of disability insurance programs, including the possibility of a more comprehensive disability insurance program.

10. Future federal-provincial meetings on the Canada Pension Plan should be open to the public so ordinary Canadians can see what kind of changes in the CPP their elected representatives are prepared to support.

11. Members of Parliament should be allowed to adopt amendments to federal legislation to amend the Canada Pension Plan - even if it means going back to provincial and territorial governments to seek their agreement on the amendments.

12. The Prime Minister should remove the Finance Department as the federal government's lead Department on the Canada Pension Plan and replace it with the Department of Human Resources Development.

13. The Department of Human Resources Development should give priority to creating and maintaining a database for research on the Canada Pension Plan. The main purpose of the database would be to assess the financial impact of the plan and proposed changes in the plan on men and women in different family circumstances and income groups.

FOOTNOTES

1. Canada Pension Plan Advisory Board, The Level of Pension Awareness in Canada (October 1989) and Extending the Level of Pension Awareness in Canada (November 1991).

2. For an overview of the situation in OECD countries, see the brief on reform of the Canada Pension Plan by the National Advisory Council on Aging. The brief cites a World Bank study entitled Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth.

3. For more information on occupational pension plans and RRSPs, see the National Council of Welfare report A Pension Primer.

4. Cofirentes+ is an acronym for the Comité d'étude sur le financement de Régime de rentes du Québec et sur les régimes supplémentaires de rentes. The committee's 1977 report was entitled La Sécurité financière des personnes âgées au Québec.

5. Unpublished data from Statistics Canada. Poor seniors received more than $1.3 billion in benefits from the Canada and Quebec Pension Plans in 1994, and a cut of 10 percent in benefits would have amounted to a loss of $135 million. The Guaranteed Income Supplement is reduced by 50 cents for every dollar of outside income, so a loss of $135 million in CPP benefits would translate into additional Guaranteed Income Supplement payments of $270 million.

6. See also the 1996 Status of Women Canada publication Gender-Based Analysis: A Guide for Policy-Making.

7. For more details see Pour vous et vos enfants: garantir l'avenir du Régime de rentes du Québec, available from the communications service of the Régie des rentes du Québec in Sainte-Foy.

8. Data from the Department of Human Resources Development compiled by the Caledon Institute of Social Policy in Ottawa.

9. See the National Council of Welfare report A Guide to the Proposed Seniors Benefit.

10. For more information about the shortcomings of occupational pension plans and RRSPs, see A Pension Primer.

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the federal government. It advises the Minister of Human Resources Development on matters of concern to low-income Canadians.

The Council consists of members drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income people, as well as educators, social workers and people involved in voluntary or charitable organizations.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, welfare reform, medicare, poverty lines and poverty statistics, the retirement income system, taxation, labour market issues, social services and legal aid.

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