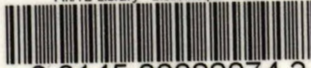
RESERVE
HD7106
C2C39

The Canada Pension Plan:

Keeping It Financially Healthy

HD7106
C2C39


Fin/TB Library - Bibliothèque Fin/CT
3 0145 00082074 3

The Canada Pension Plan:

Keeping It Financially Healthy

Canada

© Minister of Supply and Services Canada 1985

Cat. No. F2-70/1985

ISBN 0-662-54038-7

PREFACE

The Canada Pension Plan (CPP) pays retirement pensions and disability and survivor benefits to more than a million and a half Canadians. It is an important source of income to most of these people, as it will be to millions more Canadians who are now contributing to the plan and will be retiring in the coming years.

Virtually all Canadians employed outside the province of Quebec, including those who are self-employed, are contributing to the CPP. They therefore have a stake in the financing arrangements for the plan. The federal and provincial governments believe that Canadians have a right to ask for two basic assurances: first, that the financing of the plan be adequate to provide the benefits which have been promised; and second, that it be so arranged that each generation of working Canadians pays a reasonable share of the costs of these benefits.

This booklet is intended to inform all interested Canadians about the CPP's financial condition. In particular, it indicates what the CPP is committed to spend on pensions and other benefits in the decades ahead, and the implications that this has for the premiums that people will have to pay. As well, the booklet's closing pages answer some questions often asked about the CPP.

When the CPP was established in 1966, it was intended that its finances be reviewed after some 20 years' experience with the plan. Time will be up at the end of this year. Since 1966, CPP benefits have been improved a number of times, but premiums have not gone up to pay for them. New financing arrangements will have to take this into account. As well, they will have to reflect the simple reality that because Canadians are having fewer children than in the past, and because older people are healthier and living longer, the proportion of the population over age 65 is steadily increasing. Twenty years ago, one in 13 Canadians was 65 or over. Today one in 10 is. In 50 years' time, one in five will be.

At present, the Canada Pension Plan is in a healthy financial state. The federal and provincial governments agree that measures must be taken in the near future to ensure that it stays that way. We have therefore begun to discuss the decisions that will have to be made concerning new financing arrangements. Efforts will be made to maintain a high degree of similarity between the Canada Pension Plan and the Quebec Pension Plan. These measures will allow today's working Canadians to grow older with greater peace of mind.

The Honourable Michael Wilson
Minister of Finance

The Honourable Jake Epp
Minister of National Health and Welfare

TABLE OF CONTENTS

	Page
Introduction	1
Present Arrangements	2
CPP Revenues and Expenditures in the Future	4
The Need for New Financing Arrangements	8
Related Issues	11
Lending Practices	11
Size of the CPP Fund in the Future	11
Periodic Review Mechanism	12
Conclusion	13
Appendices	
Facts About the Canada Pension Plan	14
Statistical Tables for Specialist Readers	18
Questions About the Canada Pension Plan	22

INTRODUCTION

The Canada Pension Plan (CPP) was established in the mid-1960s to provide workers and their families with income for retirement, and with financial help if workers die or become disabled. The CPP, unlike Old Age Security, is a contributory plan: it is financed entirely by contributions from workers and their employers.

When the CPP was established, Parliament and the provinces recognized that the plan's financing would have to be re-evaluated after 20 years. It was known that contributions would be adequate to cover the cost of pensions for a number of years, but too low to keep paying benefits forever. The CPP will be 20 years old on January 1, 1986. Thus, the re-evaluation is now due.

When explaining the CPP to Parliament before its introduction, the then Minister of National Health and Welfare, Judy LaMarsh, commented:

> "... the actuary's estimates indicate, therefore, that some time after the plan is 20 years old, there will be need to re-assess its finances. By that time, experience of the plan will have made possible considerably more precise estimates of its costs. It may be that by the late 1980s or early 1990s an increase in the contribution rate will be required."(1)

As expected, the Canada Pension Plan has paid out less in benefits in the past 20 years than it has taken in. However, pension pay-outs will rise steadily, as anticipated, in the years to come, and the fund that has accumulated would be depleted by about the year 2003 if there were no change in the rate at which individuals contribute to the plan.

In order to pay the pensions that Canadians will receive after that date, the contributions which workers and their employers make to the plan should start increasing in the near future.

Major changes in the plan, such as a change in the contribution rate, cannot be made unless approved by both the federal Parliament and at least two-thirds (i.e. seven) of the provinces with two-thirds of the population of Canada. The federal and provincial governments, as well as the territorial governments, have therefore begun discussions to

---

(1) Page 18, *Minutes of Proceedings and Evidence*, The Special Joint Committee of the Senate and House of Commons on Bill C-136 (Canada Pension Plan), November 25, 1964. The need for an increase in the contribution rate has subsequently been noted in several reports, including those of the Parliamentary Task Force on Pension Reform (1983) and the Royal Commission on the Status of Pensions in Ontario (1981).

decide how best to put the long-term financing of the Canada Pension Plan on a secure footing.[2] The questions of possible benefit improvements, and of how to maintain a high degree of parallelism between the benefits and contribution rates of the Canada Pension Plan and the Quebec Pension Plan (QPP), are also being addressed in these discussions.

PRESENT ARRANGEMENTS

CPP contributors receive retirement benefits beginning at age 65. The maximum retirement benefit in 1985 is $435.42 per month. Benefits are also available for contributors who become disabled, for the spouses of contributors who die, and for the children of disabled or deceased contributors. CPP benefits are fully indexed to changes in the consumer price index. Currently, 1.7 million Canadians are receiving CPP benefits, totalling $4.8 billion a year.

All working Canadians (except those in Quebec) are required to contribute to the Canada Pension Plan. Residents of Quebec contribute to the Quebec Pension Plan, which provides identical retirement benefits.[3] The CPP and QPP contribution rate is 3.6 per cent of salary, up to a maximum salary in 1985 of $23,400; no contributions are paid on the first $2,300 earned.[4] Unless they are self-employed, workers pay half (1.8 per cent) of this and their employers pay the other half. Self-employed persons pay the full 3.6 per cent themselves.

In 1985, the maximum contribution is $380 for employees and $380 for their employers. Self-employed individuals pay a maximum $760. Contributions are tax deductible for both employees and employers. Approximately 9 million Canadians are currently contributing to the CPP, and 3 million to the QPP.

The first half of the graph in Chart 1 shows the contributions paid into the CPP in the last 20 years, the amount paid out in benefits, and the fund which has accumulated. Contributions have built up into a fund,

---

(2) The Government of Quebec recently released a paper, *Action Now for Tomorrow: Policy of the Government of Quebec on Retirement Income Security*, which discusses the future financing of the Quebec Pension Plan (QPP).

(3) Certain other benefits vary — see page 15 in the appendix to this booklet.

(4) The amount of a person's earnings for which contributions are made each year is referred to as "contributory earnings". Contributory earnings are an individual's earnings between the year's basic exemption ($2,300 in 1985) and the year's maximum pensionable earnings ($23,400 in 1985). These amounts are adjusted upward each year to keep pensionable earnings in line with average earnings in the country.

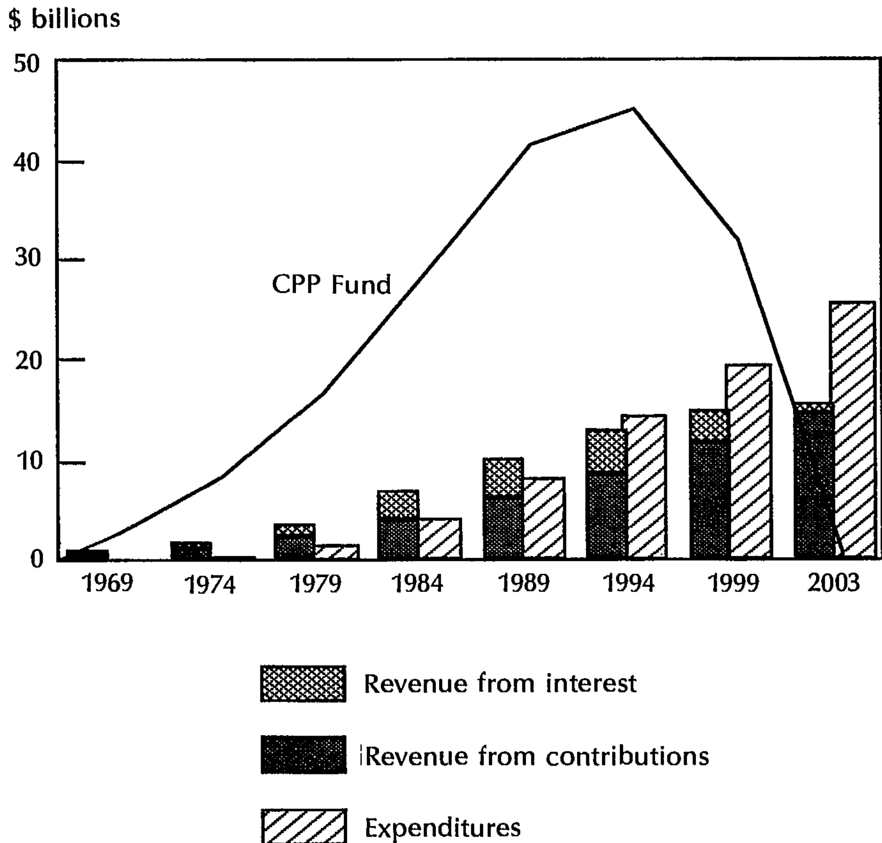
which now stands at about $30 billion, because the great majority of the people who have paid into the plan have not yet retired.

Almost all the money in the fund has been invested in loans to the provinces. The provinces have used this money for economic and social programs. The amount each province is entitled to borrow is determined by the amount of contributions coming from its residents. The provinces are charged interest on these loans semi-annually, and, as indicated in Chart 1, this interest has become an important secondary source of revenue for the plan.

Further details about benefits, contributions, and loans are contained in the appendix to this booklet.

Chart 1

CPP Revenues, Expenditures and Fund: 1966-2003
(Assuming no change in contribution rate)



CPP REVENUES AND EXPENDITURES IN THE FUTURE

As the second half of the graph in Chart 1 indicates, the amount which the CPP pays out each year in benefits will increase at a fast pace in the years to come. It is projected to increase to $9 billion in just five years, almost double the present amount of $4.8 billion. In 15 years' time, benefit payments are expected to be $21 billion, or more than four times the present amount.[5]

Table 1

CPP Projections to the Year 2003, Assuming No Change in Contribution Rates

	Expenditures	Revenue: From contributions	Revenue: From interest	Annual surplus or deficit	CPP fund
	(billions of dollars)				
1985	4.8	4.7	2.9	2.8	31.3
1986	5.5	5.2	3.3	2.9	34.2
1987	6.3	5.5	3.4	2.6	36.8
1988	7.1	5.9	3.7	2.4	39.2
1989	8.0	6.3	3.8	2.1	41.3
1990	9.0	6.7	4.0	1.7	43.0
1991	10.0	7.2	4.1	1.3	44.3
1992	11.0	7.7	4.1	0.8	45.1
1993	12.0	8.2	4.1	0.2	45.3
1994	13.1	8.7	4.2	-0.3	45.0
1995	14.2	9.2	4.2	-0.9	44.1
1996	15.4	9.7	4.0	-1.7	42.4
1997	16.7	10.3	3.7	-2.6	39.8
1998	18.0	11.0	3.6	-3.4	36.4
1999	19.4	11.7	3.4	-4.4	32.0
2000	20.9	12.4	2.9	-5.6	26.4
2001	22.4	13.1	2.4	-6.9	19.5
2002	24.1	13.9	1.7	-8.4	11.1
2003	25.8	14.8	0.7	-10.3	0.8

(5) The projections in this booklet were made recently by the Chief Actuary of the Department of Insurance and are based on the current structure of CPP benefits and a set of assumptions about inflation and economic and population growth. The estimates of future inflation, economic growth, and population growth have been carefully developed, but necessarily contain an element of uncertainty. See *Canada Pension Plan Statutory Actuarial Report No. 8* as at December 31, 1982 (Ottawa: Department of Insurance, 1984) for the latest projections.

The figures in Table 1, as well as the graph, illustrate what would happen to CPP revenues, and to the CPP fund, if contribution rates were to remain at the same level as they have been for the past 20 years. Starting in 1985, annual expenditures will regularly exceed annual contributions received from workers and employers. However, annual spending for benefits is not expected to exceed total income for another nine years because interest earned on the fund will be sufficient to make up the difference until 1994. If the contribution rate remains unchanged, the CPP fund will then begin to decline in 1994, and will be completely depleted around the year 2003 — in only 18 years' time.

There are three main reasons why expenditures on benefits will dramatically outstrip revenues flowing into the fund in the future if contribution rates remain unchanged. The first two of these reasons are not in any sense surprises. They explain why it has been anticipated for a long time that the financing of the CPP would have to be reviewed about now.

First, Canada's population is aging and will continue to do so for the foreseeable future. That is to say, the proportion of old people is increasing, while the proportion of young people is declining. This is happening principally because Canadians are having fewer children than in the past, and people are healthier and living longer than they used to.

One way to see what an aging population means for the financing of the CPP is to consider the number of working Canadians who will be paying into the plan in the future compared to the number of retired Canadians who will be receiving benefits from the plan at the same time. Currently, there are six working-age Canadians (i.e. aged 20 to 64) for each Canadian over 65. In 50 years, there will likely be only three working-age Canadians for each retired person. In other words, by that time, there will be only three working Canadians to support each person receiving CPP benefits, compared to six today.

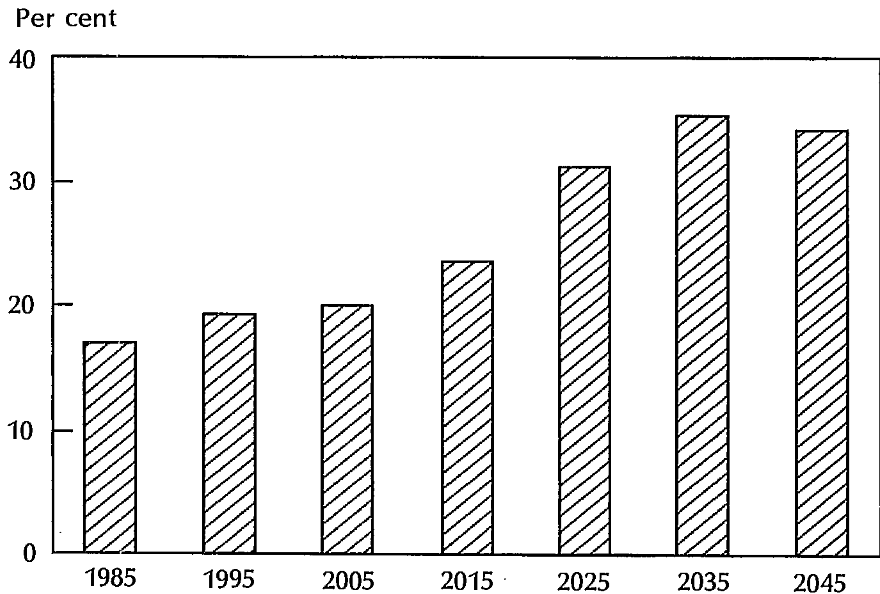
The baby-boom generation will certainly contribute to the aging of the population. But the aging of the population is not a temporary change which will end after the passing of the baby-boom generation. It is a long-term trend caused by Canada's continuing lower birth rate. Chart 2 illustrates how the percentage of retired people is expected to change over the next 60 years. Thereafter, the situation stabilizes.

The second major reason why CPP expenditures will increase faster than revenues in the future is explained by the fact that the CPP was created only 20 years ago. For that reason, many retired people in

Canada today are not eligible for benefits — they retired before the plan was created and so never paid into the plan. Those who retired during the first 10 years of the plan's existence, and so paid into it for only a short period, receive only partial benefits. This will change. More and more working Canadians will arrive at retirement age having earned full benefits. More funds will be required to pay for these benefits. This is what is meant when it is said that expenditures from the plan are increasing because the plan is "maturing".

Chart 2

Population Aged 65 and Over as a Percent of Population Aged 20-64 (Canada Excluding Quebec)



Expenditures from the plan will increase significantly for a third reason: benefits have been enriched on several occasions since the plan was established 20 years ago, with no corresponding increase in contributions. For example, benefits were not initially indexed fully to the rate of inflation. Now they are. Formerly, one had to be retired to receive benefits, and any subsequent casual earnings would reduce benefits by 50 cents for every dollar so earned. These constraints have

been eliminated. Most recently, it was decided that pensions should not be reduced by the time working people spend out of the work force rearing young children. Such enrichments have increased projected long-term expenditures significantly.[6]

Projections of future spending by the plan are shown in Table 2. Included is a column which expresses future spending as a percentage of contributory earnings.[7] This column indicates how much of their earnings working Canadians and their employers would have to pay year by year in the future if benefits had to be financed entirely by contributions made the same year.

Table 2 indicates that future CPP spending on benefits is expected to rise from 3.7 per cent of contributory earnings this year to approximately 6 per cent in the year 2000, to 8 per cent by 2015, and to 11 per cent in 2035, before settling down to around 10.5 per cent for some time thereafter. Hence, CPP expenditures as a percentage of contributory earnings are expected to triple over the next 50 years.

Table 2

CPP Expenditures

Year	Billions of dollars	Percentage of contributory earnings
1970	0.8	0.5
1975	1.4	1.4
1980	2.6	2.9
1985	4.8	3.7
1990	9.0	4.8
1995	14.2	5.6
2000	20.9	6.1
2005	29.7	6.4
2010	43.1	7.0
2015	64.4	8.0
2020	95.1	9.0
2025	137.7	10.1
2030	192.8	10.9
2035	254.5	11.0

(6) By more than 2 per cent of contributory earnings.

(7) See footnote on p. 2.

These are the most recent actuarial estimates of what existing benefits will cost. If benefits were to be further enriched, as many people have suggested, the costs would increase accordingly.

THE NEED FOR NEW FINANCING ARRANGEMENTS

Up to now, CPP contributions have exceeded expenditures and a fund has built up. The fund, the interest earned on the fund's investments, and future contributions, are what the CPP has available to meet its commitments in the years ahead.

The CPP could continue to meet all its commitments for about another 18 years if people continued to contribute at present rates. However, to meet commitments the following year, 2004, people would have to almost double the amount they contribute. The rate would jump from the current 3.6 per cent to approximately 6.4 per cent of contributory earnings. The amount contributed each year thereafter would have to continue to increase in lock-step with expenditures.

Such an abrupt and dramatic increase in contributions would face workers with a significant cut in their take-home pay, and employers with a sharp increase in labour costs. This in turn could have a potentially serious impact on the economy.

Moreover, it would not be fair. Persons contributing in the future — our children and grandchildren — will be paying considerably more for their pensions than people contributing today. In the interests of equity, current CPP contributors should pay more than they now are of the costs of the benefits they will eventually receive.

If the CPP fund were allowed to run down quickly over the next 18 years, the provinces would have to pay back in a short time the billions of dollars which they have borrowed from the fund and used for economic and social programs. Based on current projections, in the 10 years between 1994 and 2003, $45 billion would be called in. Several provinces have established special funds from which to make repayments. However, it is unlikely that all provinces could meet such obligations in their entirety without either increasing taxes or borrowing funds on the capital markets. Raising taxes would cut into people's disposable incomes, while borrowing on such a large scale could put upward pressure on interest rates and disrupt capital markets. Such potentially disruptive effects cannot be ignored when deciding how contribution rates should be adjusted.

Another consequence of waiting until the very last minute to increase contributions is that the CPP fund would be completely depleted. There would be no reserve to deal with the possibility of unexpected fluctuations in revenues or expenditures which can be caused by economic conditions, and there would be no way to cushion the impact of the baby boom.

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.

For example, look at the following table. The first column shows the automatic increases that will take place over the next 10 years in the amount of earnings on which workers make contributions to the CPP. These amounts increase because average wages increase. The next column shows how much more workers will have to contribute to the CPP each year (assuming they earn average wages or better) as a result of the increases in pensionable earnings shown in the first column. (People who earn less than average wages will not have to contribute more as a result of these increases.) These increases are not something new — they have occurred in past years and will continue automatically in future years as average wages rise.

The third column shows the *additional* increases in contributions which workers earning average wages (or better) would have to make to the CPP if contribution rates were increased by 0.15 of a percentage point a year, starting in 1987. (An increase of 0.15 percentage point has been chosen for illustration because it falls in the middle of the range of increases usually suggested.)

The fourth column adds up the two increases in contributions and shows the total amount which workers earning average (or better) wages would be paying each year. In 10 years' time, they would be paying more than twice as much as they now are. However, two points should not be overlooked. Because wages will be increasing at the same time, the *portion* of their wages which average wage-earners would be paying would not similarly double; it would increase by

Table 3

Example of Increases in CPP Contributions for Workers Earning Average or Better Wages

Year	Year's maximum pensionable earnings*	Increase in contributions as a result of increases in column 1	Increase in contributions as a result of a 0.15% annual increase in contribution rates beginning in 1987	Total maximum yearly contribution to CPP	Maximum monthly retirement pension
			(dollars)		
1985	23,400	—	—	379.80	435.42
1986	25,700	37.80	—	417.60	485.42
1987	26,700	16.20	18.08	451.88	526.40
1988	27,700	16.20	19.42	487.50	556.25
1989	28,800	18.00	21.00	526.50	577.77
1990	29,900	18.00	22.50	567.00	600.00
1991	31,000	16.20	23.63	606.83	622.92
1992	32,200	19.80	25.87	652.50	646.52
1993	33,400	19.80	27.53	699.83	670.83
1994	34,700	21.60	29.77	751.20	696.52
1995	36,000	19.80	30.90	801.90	722.92

* It is assumed that average wages will increase by 4 per cent a year. If they increase more or less, these amounts will be correspondingly more or less.

approximately 40 per cent. As well, CPP contributions are deductible for income tax purposes, so the impact of the increases on take-home pay would not be as great as the numbers suggest.

The last column indicates how the monthly pensions which the CPP pays people will be growing during the same period.

Employers' contributions would increase in a similar manner for each worker, and would similarly be tax deductible. Rough estimates suggest that employers' payroll costs would increase by 0.04 per cent in the first year as a result of a 0.15 percentage point increase in CPP contribution rates, and by 0.2 per cent over present costs in the fifth year. In dollar terms, extra employers' contributions to the CPP would be some $100 million in the first year and $600 million in the fifth year. This would be in addition to the automatic increases which will occur in future as a result of increases in earnings subject to contributions.

The appendix on page 18 provides tables which show in detail the effects that different patterns of increases in CPP contributions would have on contribution rates, on the size of the CPP fund, and on the adequacy of the CPP fund to meet expected expenditures.

RELATED ISSUES

Lending Practices

Questions have been raised about the present practice of lending accumulated funds in the CPP to provincial governments.

A frequent misconception has been that the interest rates paid by the provinces on the funds they borrow have been unusually low, and that, as a result, the financial condition of the CPP has been undermined. In fact, the accumulated funds are loaned to the provinces at the federal long-term bond rate. This interest rate is the rate at which the federal government borrows funds, but it is usually lower than the provinces would have to pay if they borrowed from private sources instead of from the CPP. For larger provinces (e.g., Ontario, Alberta), the differential has averaged between one-third and three-quarters of a percentage point over recent years. For smaller provinces (e.g., Newfoundland, Prince Edward Island), the differential has been approximately one percentage point.

Over the past 20 years, the rates which the provinces have been charged have varied between 5.3 per cent and 17.5 per cent. At the moment the rate is 11.29 per cent. The rates are set each month.

The slightly lower-than-market interest rates have very little effect on the long-run financing of the CPP. If provinces had paid market interest rates from the start of the plan, the fund would now be larger at most by an amount equal to only an extra three months of benefit payments. The financing problems which would face the CPP if contribution rates remained unchanged would be postponed by only a few months.

Size of the CPP Fund in the Future

In establishing new financing arrangements for the CPP, it should also be decided how large a CPP fund should be maintained in the future. In the long term, the fund must be large enough to deal with fluctuations in revenues or expenditures which can be caused by economic conditions or, occasionally, by sudden population changes such as the post-war baby boom.

A number of pension reports and position papers have suggested that a reserve fund equal to two years of benefits would be appropriate.

A reserve of only one year of benefits could lead to situations where sudden and sharp increases in contributions were necessary to meet obligations. A reserve significantly higher than two years of benefits would not be justified in the long term solely as a means of stabilizing contribution rates during economic and demographic fluctuations. A large fund would give rise to a need to manage large public sector funds, and it is not needed to ensure that benefits that have been promised to Canadians will always be paid.

There is an important difference between public pension plans and pension plans that companies set up for their employees. Companies can go bankrupt, or wind up their pension plans for other reasons, so to be sure that promised benefits can always be paid, there must be enough money accumulated in their pension plans to cover the eventual costs of these benefits. However, countries like Canada do not go out of business. Because Canadians will continue to pay into the CPP year after year, the CPP will be able to continue to pay benefits year after year. In other words, the Canada Pension Plan has behind it the resources of the entire country.

At present, the CPP fund provides a reserve equal to six years of benefits. In 1979, the fund stood at 10 years of benefits. As expenditures increase, it will continue to decline automatically over time towards the suggested two years of benefits.

Periodic Review Mechanism

At the same time that new financing arrangements for the CPP are being decided, it would be desirable to ensure that these arrangements will be reviewed at regular intervals in the future to take account of actual economic performance, birth and death rates, and the like. Adjustments could then be made, if required, to maintain the appropriate balance between revenues and expenditures. No mechanism to provide for such continuing sound financing exists at the moment.

For instance, a long-term schedule of contribution rates could be set and then reviewed by the federal and provincial governments at five-year intervals. At these intervals, the contribution rates for the next five years could be confirmed, or revised as appropriate, taking into consideration the contribution rates needed to maintain desired contingency reserves in the fund. The long-term schedule could be adjusted if necessary to reflect changing economic and demographic projections. The schedule should also be extended by five years to ensure that a "rolling" 25-year schedule always existed.

CONCLUSION

The Canada Pension Plan is important to Canadians. It is a good plan, and in good financial health.

However, Canada's population is aging and the plan itself is maturing. This means that the plan will be supporting many more pensioners in the future than in the past, and the time has come to begin to make the changes in its financing arrangements that were anticipated when the plan was created. The plan must change to reflect new realities.

This booklet has been prepared to explain why the amount that Canadian workers and their employers contribute to the plan should increase at an early date. This will be fairer to future generations, and avoid major disruptions down the road.

The federal, provincial, and territorial governments will therefore be meeting in the months ahead to discuss appropriate changes — changes which will cost Canadians more today but will maintain the good health of the plan, and will result in each generation contributing more fairly to the cost of the benefits they will eventually receive.

At the same time, consideration will be given to suggestions that have been made to improve the benefits which the CPP pays people. The costs to workers and employers of any such improvements are not included in the figures noted in this booklet. They would have to be funded from additional contributions.

Appendix 1

FACTS ABOUT THE CANADA PENSION PLAN

Origins

Parliament decided in the mid-1960s that both employed and self-employed Canadians should have public retirement pensions related to their earnings. The provinces agreed to amend Canada's constitution to make this possible. The Canada Pension Plan was thus established in 1966 to ensure a pension equal to one-quarter of pre-retirement salaries (up to the average industrial wage).

Although the Canada Pension Plan is governed by an act of the federal Parliament, major amendments to the plan can only take place if they are approved both by the Parliament of Canada and by two-thirds of the provinces having two-thirds of the population of Canada. This rule reflects the fact that legal jurisdiction over pensions is shared by the federal and provincial levels of government and thus the plan is a federal-provincial co-operative effort.

The Canada Pension Plan Act allows provinces to set up their own pension plans as long as they provide comparable benefits. Quebec decided to do this and, with the CPP's introduction in 1966, the Quebec government established the Quebec Pension Plan for workers in that province. The workers of other provinces are covered by the Canada Pension Plan.

Benefits

The plan pays retirement pensions to contributors beginning at age 65. Pensions are also paid if a contributor becomes disabled, or if a contributor dies and is survived by a spouse or children. In addition, there is a lump-sum benefit paid upon the death of a contributor.

The following is a list of those who are entitled to receive CPP monthly benefits:

1. a contributor aged 65 or older;
2. a contributor aged less than 65 who becomes disabled;

3. an unmarried child of a disabled contributor, as long as the child is under age 18, or is under age 25 and has been attending school full-time since age 18;

4. a contributor's widow or widower who is over age 35 at the date of the contributor's death, or under age 35 and disabled or caring for children;

5. an unmarried child of a deceased contributor, as long as the child is under age 18, or is under age 25 and has been attending school full-time since age 18.

Table 1 shows the maximum monthly benefits that contributors and their families are entitled to in 1985. The benefits are fully indexed to the consumer price index.

Table 1

Maximum Monthly Benefits Payable Under the Canada and Quebec Pension Plans, 1985

	Maximum CPP benefits	Maximum QPP benefits
Retirement pension	$ 435.42	$ 435.42
Disability pension	414.13	550.97
Orphans and children of disabled	87.56	29.00
Surviving spouses		
a) 65 and over	261.25	261.25
b) 55 to 64	250.84	450.38
c) under 55	250.84	387.68
Death benefits (lump sum)	2,340.00	2,340.00

Table 2 shows the total amount of benefits that the CPP paid out during the fiscal year ended March 31, 1985, by type of benefit.

Table 2

CPP Benefit Expenditures
(Fiscal year ended March 31, 1985)

Type of benefit	Millions of dollars
Retirement pensions	2,776.8
Disability pensions	520.6
Benefits to children of disabled	59.7
Surviving spouse's pensions	680.6
Benefits to children of deceased	110.5
Lump-sum death benefit	81.8
Total CPP benefits paid during the 1984-85 year	4,230.0

Contributions

The CPP is financed by a payroll tax of 3.6 per cent of contributory earnings. Employees and employers each pay 1.8 per cent, while self-employed persons pay the entire 3.6 per cent. The contribution rates have stayed the same since the CPP was introduced in 1966.

Contributory earnings are an individual's earnings between the year's basic exemption ($2,300 in 1985) and the year's maximum pensionable earnings ($23,400 in 1985). These amounts are adjusted upward each year in line with the average industrial wage. The year's maximum pensionable earnings were $5,000 when the plan started up in 1966, and the year's basic exemption was $600.

In 1985, the maximum amount that is required to be contributed to the plan is $380 for employees and $380 for their employers. The self-employed will pay a maximum $760 in 1985.

All wage and salary earners aged 18 to 65 are required to contribute to the CPP unless they have earned less than the year's basic exemption, are receiving a CPP retirement or disability pension, are covered by the Quebec Pension Plan, or are members of certain religious groups.

Lending practices

The plan's revenues during the first two decades of its existence have been more than enough to pay monthly benefits. Almost all the funds

that have accumulated have been invested in the form of loans to provincial governments, save for a three-month reserve which is held back to pay for benefits.

Table 3 shows the total borrowed from the fund by the federal and provincial governments as of March 31, 1985. The amount each province is entitled to borrow is determined by the amount of contributions coming from its residents. The small amount borrowed by the federal government is with respect to any allotment not borrowed by the provinces, and to contributions by residents of the Yukon and Northwest Territories and by federal employees located outside Canada.

Table 3

CPP Fund as of March 31, 1985

Jurisdiction	Millions of dollars
Newfoundland	570.2
Prince Edward Island	119.7
Nova Scotia	1,078.3
New Brunswick	819.1
Quebec	109.9*
Ontario	14,633.7
Manitoba	1,558.7
Saskatchewan	1,240.1
Alberta	3,053.1
British Columbia	4,166.2
Canada	205.3
Total Loans	27,554.4
Reserve	1,519.9
Total CPP Fund	29,074.3

* With few exceptions, everyone working in Quebec contributes to the Quebec Pension Plan. The loans to Quebec arise from the exceptions which include members of the armed forces and RCMP resident there.

Appendix 2

STATISTICAL TABLES FOR SPECIALIST READERS

The following tables illustrate the effect that four different patterns of increases in CPP contributions would have over 25 years. In each of the four examples, 1987 was chosen as the starting date for increases. The four examples are: rate increases of 0.2 of a percentage point each year; 0.15 of a percentage point each year; 0.1 of a percentage point each year; and a stepped pattern of increases of 0.1 of a percentage point for the first 10 years, 0.15 of a percentage point for the next five years, and 0.2 of a percentage point for the last 10 years.

The tables show how these patterns of increases would affect contribution rates, the size of the CPP fund, and the adequacy of the fund to meet expected expenditures. The tables are based on figures from the latest actuarial report on the CPP prepared by the Department of Insurance.

Table 1

Effect on Contribution Rates of Different Patterns of Rate Increase

Year	Annual increase in contribution rate 0.2%	0.15%	0.1%	Stepped
	(per cent of contributory earnings)			
1986	3.60	3.60	3.60	3.60
1987	3.80	3.75	3.70	3.70
1988	4.00	3.90	3.80	3.80
1989	4.20	4.05	3.90	3.90
1990	4.40	4.20	4.00	4.00
1991	4.60	4.35	4.10	4.10
1992	4.80	4.50	4.20	4.20
1993	5.00	4.65	4.30	4.30
1994	5.20	4.80	4.40	4.40
1995	5.40	4.95	4.50	4.50
1996	5.60	5.10	4.60	4.60
1997	5.80	5.25	4.70	4.75
1998	6.00	5.40	4.80	4.90
1999	6.20	5.55	4.90	5.05
2000	6.40	5.70	5.00	5.20
2001	6.60	5.85	5.10	5.35
2002	6.80	6.00	5.20	5.55
2003	7.00	6.15	5.30	5.75
2004	7.20	6.30	5.40	5.95
2005	7.40	6.45	5.50	6.15
2006	7.60	6.60	5.60	6.35
2007	7.80	6.75	5.70	6.55
2008	8.00	6.90	5.80	6.75
2009	8.20	7.05	5.90	6.95
2010	8.40	7.20	6.00	7.15
2011	8.60	7.35	6.10	7.35

Table 2

Size of the CPP Fund Under Different Patterns of Rate Increase

Year	Annual increase in contribution rate			
	0.2%	0.15%	0.1%	Stepped
	(billions of dollars)			
1986	34.2	34.2	34.2	34.2
1987	37.1	37.1	37.0	37.0
1988	40.2	40.0	39.7	39.7
1989	43.4	42.9	42.4	42.4
1990	46.8	45.8	44.9	44.9
1991	50.4	48.9	47.3	47.3
1992	54.2	51.9	49.6	49.6
1993	58.3	55.1	51.8	51.8
1994	62.8	58.3	53.9	53.9
1995	67.7	61.8	55.9	55.9
1996	73.0	65.3	57.7	57.7
1997	78.9	69.2	59.4	59.5
1998	85.5	73.2	61.0	61.4
1999	92.9	77.6	62.4	63.4
2000	101.0	82.4	63.7	65.5
2001	110.2	87.5	64.9	67.7
2002	120.3	93.0	65.8	70.1
2003	131.6	99.0	66.4	72.9
2004	144.3	105.6	66.8	76.2
2005	158.5	112.8	67.1	80.1
2006	174.4	120.7	67.0	84.7
2007	192.2	129.4	66.7	90.0
2008	211.8	138.8	65.9	96.0
2009	233.6	149.0	64.5	102.8
2010	257.6	160.0	62.5	110.5
2011	283.9	171.7	59.5	118.9

Table 3

Size of the CPP Fund Compared to Expenditures* Under Different Patterns of Rate Increase

	Annual increase in contribution rate			
Year	0.2%	0.15%	0.1%	Stepped
1986	5.4	5.4	5.4	5.4
1987	5.2	5.2	5.2	5.2
1988	5.0	5.0	5.0	4.9
1989	4.8	4.8	4.7	4.7
1990	4.7	4.6	4.5	4.5
1991	4.6	4.4	4.3	4.3
1992	4.5	4.3	4.1	4.1
1993	4.4	4.2	4.0	4.0
1994	4.4	4.1	3.8	3.8
1995	4.4	4.0	3.6	3.6
1996	4.4	3.9	3.5	3.5
1997	4.4	3.8	3.3	3.3
1998	4.4	3.8	3.1	3.2
1999	4.4	3.7	3.0	3.0
2000	4.5	3.7	2.8	2.9
2001	4.7	3.6	2.7	2.8
2002	4.7	3.6	2.6	2.7
2003	4.8	3.6	2.4	2.6
2004	4.9	3.5	2.2	2.6
2005	5.0	3.5	2.1	2.5
2006	5.1	3.5	1.9	2.5
2007	5.2	3.5	1.8	2.4
2008	5.3	3.5	1.6	2.4
2009	5.4	3.5	1.5	2.4
2010	5.5	3.5	1.3	2.4
2011	5.6	3.4	1.2	2.3

* The numbers show how many times greater the fund is at the end of each year than the next year's anticipated expenditures.

QUESTIONS ABOUT THE CANADA PENSION PLAN

The following questions have often been asked about the Canada Pension Plan.

Q. Is the CPP going broke? After paying into it for years, could I be left without a pension?

A. Definitely not. The CPP is in a very healthy state and will be kept that way.

Legislators knew when they created the CPP in 1966 that the contribution rate which they set would be high enough to pay for benefits for a long time, and to build up a good-sized fund. But they knew from the outset that changes would be required after about 20 years.

The federal government and provinces are now discussing the changes that are needed. Hence concerns about governments allowing the CPP to go broke are completely unfounded.

Q. How is my take-home pay going to be affected if I have to pay more to the Canada Pension Plan?

A. If contribution increases of the size illustrated in the table on page 10 went into effect in 1987, and you were earning $25,000, your contribution to the CPP would increase by $17 that year. By the fifth year, you would be paying $82 more than you are now.

However, because contributions are tax deductible, your take-home pay would be decreased by about $12 rather than $17 in the first year, and by about $55 rather than $82 in the fifth year.

Q. Am I not already paying enough towards my CPP pension?

A. At present contribution rates, you and your employer are not paying fully for the benefits you will be receiving when you retire. You both would have to be paying substantially more to do this. The increases which are needed in the near future to keep the Canada Pension Plan financially healthy are therefore not unfair to you.

Q. Are contribution rates being increased because funds have been loaned to provinces at cheap interest rates?

A. No. CPP funds have not been loaned to the provinces at cheap interest rates. Over the past 20 years, they have been charged rates between 5.3 and 17.5 per cent. The rate at present is 11.29 per cent. These rates are adjusted each month to match the rate at which the Government of Canada itself can borrow money (the 20-year bond rate).

Q. Are contribution rates being raised at an early date so that the provinces can avoid paying back the money they owe the CPP?

A. No. Contribution rates must increase at an early date so that we can avoid disruptions to the economy and financial markets a few years down the road. This is prudent financial planning which will ensure an easier adjustment to the inevitably higher contribution rates.

It is also fairer to our children and grandchildren. If we pay our way now, the burdens on them will be lighter. If we aren't willing to pay for the cost of the pensions which we have promised ourselves, why should we expect them to be willing to pay for us?

Provinces have been charged interest semi-annually. Many provinces have established special funds from which to repay CPP loans.