SURVIVOR BENEFITS UNDER THE CANADA PENSION PLAN

Consultation Paper

September 1987

Canada

Foreword

Since being introduced in 1966, the Canada Pension Plan (CPP) has contributed substantially to the financial security and well-being of Canadians.

During the two decades since the Plan's inception, governments have found it relevant to adapt the CPP to the changing values and needs of Canadian society. Higher disability pensions, flexible retirement and the continuation of survivor benefits on remarriage are examples of amendments that have been considered and implemented.

During the pension reform debate, it became evident that substantial changes to survivor benefit provisions under the CPP were required. The Parliamentary Task Force on Pension Reform, after considering a large number of proposals and briefs, concluded that before comprehensive changes to CPP survivor benefits could be recommended, further study was required. This paper, therefore, examines the relevance of the Plan's current survivor benefit provisions to the needs of Canadians in 1987 and beyond, and proposes directions for reform.

The proposal is the result of extensive federal-provincial discussions which have been held during the past year. Because the proposal would fundamentally alter the way in which the CPP addresses the income needs of survivors, the Government of Canada considers it essential to have the views of Canadians before any decision is made to proceed with further reforms.

I would invite all who are interested in commenting on the proposal to make their views known to me or to the Standing Parliamentary Committee on National Health and Welfare to which this document is being referred. The observations and concerns expressed in this consultation process will be given full consideration before any legislative changes are introduced.

Jake Epp
Minister of National Health and Welfare

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SUMMARY

Since its inception in 1966, the Canada Pension Plan (CPP) has played an important role in protecting Canadian families against the sudden loss of earnings due to the death of a wage-earner.

The CPP survivor benefit structure was designed at a time when most married women did not participate in the paid labour force. It was expected that most widows would therefore be dependent upon the earnings of their husband for financial support. That situation has changed drastically. For example, in 1985, in husband/wife families with pre-school children, 68 percent of wives were employed in the paid labour force compared to 34 percent in 1967.

Also, when the survivor benefit was designed, marriages usually continued until the death of one spouse. The financial dependence of the family was therefore assumed to be permanent. Today, with the increase in divorce and remarriage rates, the family structure has changed. Many marriages are of shorter duration and there are increasing numbers of single-parent and blended families. Dependent children of CPP contributors may therefore not be financially supported by a CPP surviving spouse.

Furthermore, current eligibility for and the amount of a surviving spouse's benefit is limited by the age of the spouse at the time of the death of the contributor and the presence of disability or dependent children. The Parliamentary Committee on Equality Rights, following an examination of federal programs for possible conflict with equality provisions of the *Canadian Charter of Rights and Freedoms*, recommended that benefits under the CPP be awarded without reference to disability, age or family status.

Consequently, the changes to CPP survivor benefits proposed in the consultation paper are designed to recognize:

- that the family's subsistence is generally based on the gainful employment of both spouses and on the pension protection accumulated by both;
- that financial difficulties may be experienced by surviving spouses of all ages, regardless of the presence of children and/or disability;
- that the adjustment might be more difficult when young children are present;
- that, given changing family structures, orphans may not always be supported by the person receiving a surviving spouse benefit; and

- that societal changes have not applied uniformly to all generations.

The Proposal for Change

The proposal for change has four major elements:

- implementation provisions;
- a transitional benefit structure for existing surviving spouses;
- a new benefit structure for future surviving spouses; and
- increased children's benefits.

A description of the current CPP provisions for survivors can be found in Appendix A of the consultation paper as background to the proposal for change.

Implementation Provisions

Implementation provisions are designed to ensure fair treatment of present and future CPP survivors and to maintain the stability of the income security system. Therefore, the new benefit structure for surviving spouses would be phased in gradually. For a period of time, two forms of benefit for surviving spouses would have to co-exist: benefits based on the current structure and benefits based on the new structure.

At the date of implementation:

- existing beneficiaries would be eligible for improved benefits based on the current structure;
- spouses under age 35 would be automatically protected under the new survivor benefit structure as they become survivors;
- spouses aged 35 and older could choose between improved benefits based on, the current structure or the new benefit structure.

The increase in children's benefits would be effective immediately.

Transitional Benefit Structure

For surviving spouses already in receipt of benefits and for those who choose benefits under the current structure, benefits would be paid at a higher rate up to age 65 as a result of doubling the flat-rate portion (from $94.79 to $189.58 per month) and removing the age reductions applied to surviving spouses under age 45.

New Benefit Structure

A higher monthly benefit equal to 40 percent of insured earnings with a guarantee of a minimum monthly benefit equal to 40 percent of the maximum benefit, could be payable to surviving spouses under age 65.

The benefit would be paid for a fixed period (three years in full, then phased out over the next two years) immediately following the death of the contributor.

If the survivor is left with dependent children, the full benefit would be payable until the youngest child reaches age 7, whereupon the benefit would be phased out over 2 years. Any benefit in pay would cease at age 65, when other benefits are available through the income security system.

There would also be provision for a transfer of 60 percent of the CPP credits accumulated by the deceased contributor during the period of cohabitation, to the CPP Record of Earnings in the name of the surviving spouse. This would apply to all spouses regardless of age and would be effective at the time of death, replacing the existing benefit payable after age 65.

Children's Benefits

Children's benefits would be retained and strengthened. It is proposed that both orphans' benefits and benefits for children of disabled contributors be maintained and that the benefit amount be increased from $94.79 per month to $121.48 per month (1987 rates).

Effects of the Proposal

The effects of the proposal would depend on whether the individual would receive benefits under the new or the transitional benefit structure.

Transitional Benefit Structure

All existing CPP surviving spouses under age 65 at the time of implementation would receive an increase of at least $95 per month. It is estimated that some 171,000 spouses could benefit from the increase.

New Benefit Structure

A much higher monthly benefit would be payable for a fixed period to all surviving spouses under age 65 regardless of their situation at the time of death. New monthly benefits would range from $333.77 to $834.43 compared to the existing range of $0 to $290.36.

Combined survivor/disability benefit amounts would no longer be subject to a maximum limitation. It is estimated that some 5,000 disabled survivors could benefit from this measure in any one year.

The transfer of credits would improve or create CPP entitlements to disability, survivor and retirement benefits for surviving spouses with low or no previous personal CPP credits. The length of the cohabitation period would determine the value of the transfer of credits.

Children's Benefits

Orphans and children of disabled contributors would all receive an increase of at least $26.69 in their monthly benefit amounts. The increase in children's benefits would provide improved income on behalf of some 133,000 children.

Costs

While CPP benefit payments would be higher during the initial phase of the transition period (1990-2020), it is estimated that overall CPP expenditures are expected to be lower than under current provisions when the proposed structure is fully phased-in (2050).

Changes to survivor benefits could require higher contribution rates some time between now and 2026. The timing and magnitude of these increases would be determined by federal-provincial discussion at appropriate times in the future.

Consultation

This proposal was developed through extensive federal-provincial consultations and is designed to implement fundamental reforms gradually to allow Canadian families, employment pension plans and insurance programs to adapt their planning. In releasing this paper, the Government is seeking the views of Canadians on the proposed changes to CPP survivor benefits in order to be able to offer the best program to meet their needs.

Introduction

When the Canada Pension Plan (CPP) was implemented, married women usually had limited experience in the paid labour force. It was expected, therefore, that the majority of widows, especially if they were older, disabled or had dependent children, would not be able to support themselves adequately with employment earnings.

For this reason, the federal and provincial governments agreed that survivor benefits under the CPP and under the Quebec Pension Plan (QPP) should ensure that the female spouse and dependent children of a male contributor have a measure of income protection in the event of the male contributor's death.

Since that time, there have been major changes both in Canada's family structure and in the earning patterns of female spouses. The majority of married women are now working outside the home, on a part-time or full-time basis, and are contributing through their earnings to family income. Concurrently, an increase in the divorce rate means that it has become less common for marriages to end with the death of a spouse.

These social changes have had a significant impact on the situation of surviving spouses. Today, the degree of dependency of a survivor on the spouse who has passed away, and the way in which the death of a spouse might affect the family's standard of living, are not the same as they were 20 or 30 years ago. While financial difficulties still are present, the social and financial problems facing surviving spouses have significantly altered.

In response to evolving social conditions, certain amendments have already been made to survivor provisions under the CPP. In 1974, changes were implemented so that male surviving spouses would be allowed to qualify for benefits. Previously, male surviving spouses of female contributors could not qualify for CPP survivor benefits unless they were disabled.

Further changes were implemented on January 1, 1987, to provide for the continued payment of the survivor pension if a surviving spouse remarried, and for the reinstatement of these benefits to individuals who had previously lost them on remarriage.

Notwithstanding these amendments, the essential nature of the CPP survivor benefit, as a life-time pension for dependent spouses in the event of a contributor's death, remains the same.

In 1985, concerns were raised by the Parliamentary Committee on Equality Rights about the appropriateness of survivor provisions under the Plan which take age, disability and family status into account. It has become necessary, therefore, to question the assumptions underlying the existing CPP survivor benefit structure, and to consider whether a fundamentally different approach to CPP survivor benefits will be more appropriate to the needs of Canadian society in the future.

I. Survivor Benefits under the Canada Pension Plan

The Canada Pension Plan provides contributors and their families with a basic level of protection against the loss of earnings due to the retirement, disability or death of a contributor to the Plan. In providing benefits for these contingencies, the CPP encompasses a unique configuration of savings, insurance and support elements.

The Plan was specifically intended to play a fundamental, although not exclusive, role in protecting the employment income of all Canadians. Consequently, benefits under the CPP are not targetted to low-income groups, and they are not intended to provide all of the income Canadians would want. Rather, CPP benefits were designed to provide a basic level of earnings replacement, to be supplemented by income from other sources, on which Canadians could rely for a measure of their and/or their families' future income needs.

The CPP is fully self-supporting, with all benefits being paid from the compulsory contributions of employees and employers and from the investment earnings of the Canada Pension Plan Fund. The retirement, disability and survivor benefits provided are all related to the level of insured earnings on which contributions were paid.

The structure of the benefits under the CPP varies according to the type of protection each benefit is intended to provide. For example, the retirement pension, which is the primary CPP benefit, was designed to assist Canadians in providing income for their retirement years. Virtually all employed Canadians contribute to the CPP. In return all Canadians are guaranteed a pension in retirement.

The retirement pension, therefore, most clearly represents the savings element encompassed by contributions to the CPP.

The nature and structure of disability and survivor provisions under the Plan are somewhat different, as they encompass insurance and support elements. The insurance element affords contributors with a means of "pooling" their contributions for protection against common risks. For example, as long as they meet the contributory requirements, contributors have the assurance of CPP benefit protection in the event that they become disabled. Similarly, contributors are assured that, upon their death, CPP survivor benefits will be available to a surviving spouse or children.

The support element takes the form of the flat-rate benefit components paid to disabled contributors or to surviving spouses under the age of 65 and to children of deceased or disabled contributors. These flat-rate benefits introduce a redistributive element into the otherwise earnings- related nature of the CPP.

Description of existing benefits

Under current CPP provisions, the family of a CPP contributor is protected against the loss of earnings in the event of his or her death, through surviving spouse's, orphan's and death benefits. These three components of the survivor benefit structure are described below.

i) Surviving spouse's benefit

The surviving spouse's benefit is a continuing monthly pension payable to the spouse of a deceased contributor following the contributor's death.

Benefits for survivors under age 65 are subject to eligibility criteria based on the age and situation of the surviving spouse at the time of the death of the contributor. Survivors with dependent children, those with a disability and those over age 45 are eligible for a full survivor pension. Surviving spouses aged 35 to 45, who are neither disabled nor have dependent children, are entitled to a pension reduced by 1/120 for each month under the age of 45. A surviving spouse who is under the age of 35 at the time of the death of the contributor is not entitled to a survivor's pension until he or she reaches the age of 65, unless he or she has dependent children or is disabled.

The CPP benefit for a survivor under 65 consists of a flat-rate portion ($94.79 at 1987 rates) and an earnings-related portion (37.5% of the deceased spouse's calculated retirement pension). The 1987 maximum monthly amount is $290.36.

The amount of the monthly pension paid to the surviving spouse at age 65 and over is equal to 60% of the deceased spouse's calculated retirement pension. In 1987, the maximum monthly benefit for a survivor over the age of 65 is $312.91. If the survivor is also entitled to a CPP retirement pension, the total of the combined survivor/retirement benefit is subject to a ceiling equal to the maximum retirement pension ($521.52 per month in 1987).

ii) Orphan's benefit

An orphan's benefit is payable monthly on behalf of a dependent child of a deceased contributor. The benefit is a flat-rate amount equal to $94.79 in 1987. It is payable until the child reaches the age of 18 or until age 25 if he or she attends school full-time.

iii) Death benefit

A death benefit is payable to the estate of a deceased contributor. It is a lump-sum amount equal to the lesser of six months of the deceased contributor's retirement pension or 10% of the maximum pensionable earnings. In 1987, the maximum death benefit is $2,590.

All CPP benefits in pay are increased each January to reflect annual changes in the Consumer Price Index.

A more detailed description of existing CPP provisions is given in Appendix A.

II. The Need for Reform

During the pension reform debate, many questions were raised about CPP survivor benefits. Although no consensus emerged for a new structure, the majority of groups who expressed views supported increasing or redirecting CPP survivor benefits.

Most groups who favoured increasing benefit levels primarily wanted to provide basic income support to all survivors aged 45 to 64 and to survivors with dependent children. They were also concerned, however, with improving CPP benefits for survivors over age 65, either by increasing the survivor pension derived from the deceased contributor's pension or by enriching the survivor's entitlement to a CPP retirement pension.

Groups who considered that current survivor benefits should be redirected stressed the need to develop a structure which would not penalize older survivors who lack labour force experience but, at the same time, would not pay unnecessary benefits to survivors who are fully employed.

In general, interest groups agreed that survivor benefits were inadequate in some situations and inappropriate in others.

Charter of Rights

The equality provisions of the *Canadian Charter of Rights and Freedoms* came into force on April 17, 1985. These provisions guarantee equal protection and equal benefit of the law without discrimination based on grounds such as race, national or ethnic origin, colour, religion, sex, age, and mental or physical disability.

The Parliamentary Committee on Equality Rights was established to review federal statutes to ensure their conformity with the equality provisions of the Charter. It recommended that the CPP be amended so that surviving spouse's benefits would be awarded without reference to disability, age or family status.

In its response to the Committee's recommendation, the Government acknowledged that the current criteria may no longer be appropriate and stated its intention to work with the provinces to arrive at a consensus on this issue.

Uniformity of CPP-QPP benefits

It was recognized at the time the CPP was enacted that public pension arrangements should be nation-wide in character. Consequently, when the CPP and QPP were first designed, the Federal and Quebec governments agreed to maintain a high degree of similarity between the two Plans so that they would provide common pension arrangements for all Canadians across the country.

Originally, the benefit provisions of the Plans were virtually identical in all respects. However, because of differing political, social and economic priorities, some dissimilarities have emerged during their 21-year existence, particularly in the area of survivor benefits.

For example, in 1987, the CPP pays surviving spouses, aged 45 to 64 at the time of the death of their spouse, maximum benefits of $290.36 per month. The QPP pays surviving spouses, aged 45 to 54 at the time of the death of their spouse, maximum benefits of $438.52. Under the QPP, however, all survivors aged 55 to 64 may qualify for maximum benefits of $506.39 monthly, regardless of their age at the time of their spouse's death.

Orphans' benefits under the QPP also are different. The CPP provides $94.79 monthly for eligible children in 1987, whereas the QPP pays monthly orphans' benefits of $29.00.

Social change

One of the major changes in Canadian society since the introduction of the CPP is the substantial increase in women's participation in the paid labour force. The following graph illustrates the extent of that change as it occurred between 1961 and 1981.

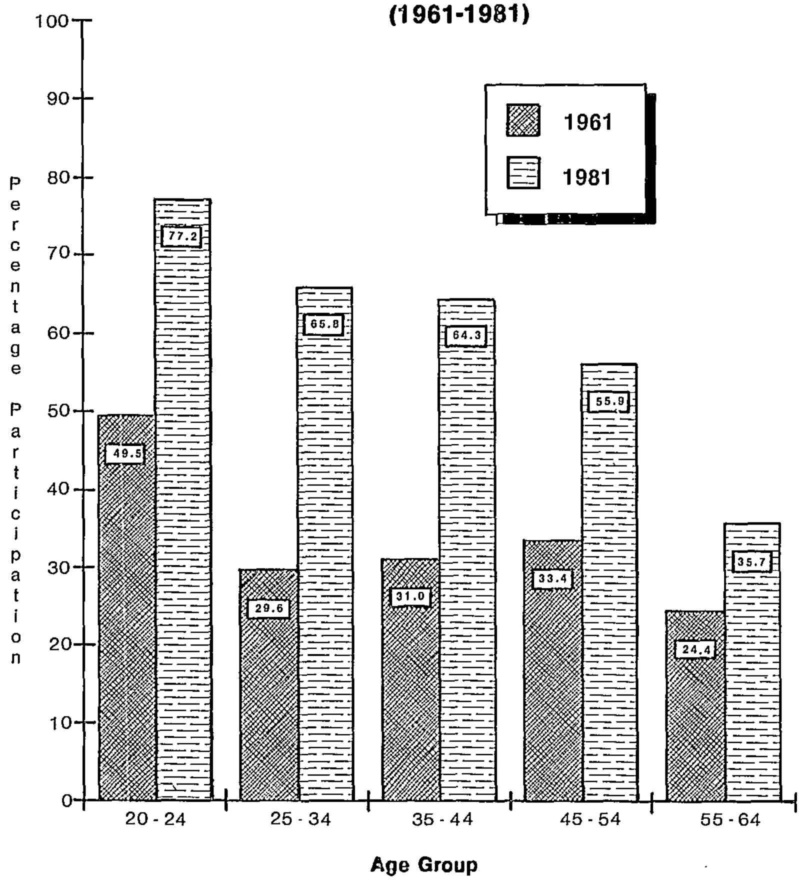
The graph shows that the increase in labour force participation has been substantial for women of all ages. The increase is most significant during the prime child-bearing period (between the ages of 25 and 34); in this age range the participation rate more than doubled over the 20-year period.

This supports the view that the majority of married women with children are now participating in the labour force. For example, in husband-wife families with pre-school children, 68% of wives were gainfully employed in 1985 in comparison with 34% in 1967.

As a direct result of the marked increase in labour force participation of women and in the increase in single-parent families, the "traditional" one-earner (couple) for whom the existing benefit structure was designed dropped from 58% of all non-elderly families in 1967 to 27% in 1985. The increase in two-earner couples accounts for much of this change - their proportion within non-elderly families rose from 34% in 1967 to 56% in 1985. Single-parent families almost doubled in proportion from 7 percent in 1967 to 13 percent in 1985. The remaining 4% comprised couples without earnings during 1985.

Graph 1

Labour force participation of women aged 20 to 64 (1961-1981)



Source: Statistics Canada, Catalogue #99-522 (Vol. VII, Part 1) 1961 Census Data, and 1981 Census Data Microfiche SPE 81821.

The changes which have taken place, however, have not occurred at the same rate in all age groups. Rather, they have been most evident in the younger generations. In comparison with older age groups, younger women appear more likely to have lifetime patterns of work activity characterized by work before marriage, more continuous employment throughout their working years, and a greater likelihood of combining homemaking activities with work outside the home. Consequently, the social and economic situations of survivors may be expected to vary among different generations during the foreseeable future.

III. Objectives of the Reform

Complying with the Charter

As has been noted, the limitation of survivor benefits for younger spouses on the basis of age and disability is of direct concern in light of the equality provisions of the *Canadian Charter of Rights and Freedoms*.

Under the current rules, unless they are disabled or caring for a dependent child, survivors under age 45 at the time of the death of the contributor will receive reduced benefits, or none at all, until they reach age 65; full benefits are provided to survivors who are age 45 or over.

Although younger survivors may have more opportunity to maintain or improve their standard of living in the long term, they may have had little time to accumulate assets and are often left with long-term financial obligations. As well, the younger the deceased spouse was at the time of death, the less likely it is that adequate provision for the surviving spouse will have been made for the contingency of death.

Any changes to survivor benefits, therefore, should recognize that financial difficulties are experienced by surviving spouses of all ages, regardless of whether or not they are disabled or caring for dependent children.

Adapting to social change

The existing CPP benefit structure for surviving spouses was designed to accommodate the needs of widows who were viewed as their husband's lifelong dependent. However, the economic circumstances of survivors and the type of financial difficulties they experienced on the death of a spouse has changed.

Today and in the future, it is expected that the majority of survivors of working age will be employed or have recently retired and that they will be more likely to have accumulated CPP credits for periods outside the marriage, either through personal earnings or through the division of CPP credits on the breakdown of a previous marital relationship. It is also expected that the majority of women will have earned survivor protection for their husbands and children. Consequently, it may no longer be appropriate to allocate survivor benefits on the assumption of lifelong dependency of the surviving spouse on the earnings of the deceased contributor.

Survivors are likely to face severe financial problems during the period immediately following the death of a spouse. It may now be questioned, however, whether permanent earnings replacement is required in a society where the majority of female spouses are wage-earners. In these circumstances, the current structure for CPP survivor benefits, because of its life-long provisions for payments, may tend to overcompensate those survivors who have significant personal earnings capacity. This is especially likely in cases where payments continue long after a survivor has been able to adjust to changes in family size and financial circumstances.

Moreover, the increase in divorce and remarriage, and in the number of one-parent families, has resulted in marriages that now are often of shorter duration. This has led to an increase in family situations where the dependent child of a contributor may not live in the same household as the surviving spouse, and may not be able to count on the surviving spouse for financial support.

Any amendments to the CPP survivor benefit structure, therefore, should allocate benefits in a way that is more appropriate to the situation of survivors both today and in the future.

Ensuring fair treatment of present and future CPP survivors

It is clear that society has changed and that any reform to CPP survivor benefits must address this fact. Societal changes have not happened overnight, however, nor have they applied equally to all generations. There remains today a significant portion of families who fall into the traditional mould. As well, many older Canadians have spent a large portion of their working years outside the paid labour force and could face long-term financial difficulties as surviving spouses. In addition, many Canadians have established personal savings and financial plans on the basis of the existing structure of CPP benefits.

Thus, any reform must recognize the need to maintain the stability of the social security system and should be implemented in a way which recognizes that families are in transition.

IV. Description of the Proposal

This proposal for change has four major components:

- a new benefit structure for future surviving spouses;
- improved children's benefits;
- implementation provisions; and,
- improved benefits for current CPP survivors, during the period of transition.

New benefit structure

The new benefit structure for surviving spouses would comprise:

- the payment of a higher surviving spouse's benefit over a shorter period of time; and
- a transfer of a portion of the deceased contributor's credits (earned during the period of marriage or cohabitation) to the surviving spouse's account.

i) Surviving spouse's benefit

While surviving spouses in their working years may be able to maintain their own standard of living, they may need time and money to adjust to their new circumstances. Therefore, it is proposed that the benefit payable to a surviving spouse under the age of 65 be substantially increased, and provided over a shorter period of time immediately following the death of the contributor spouse.

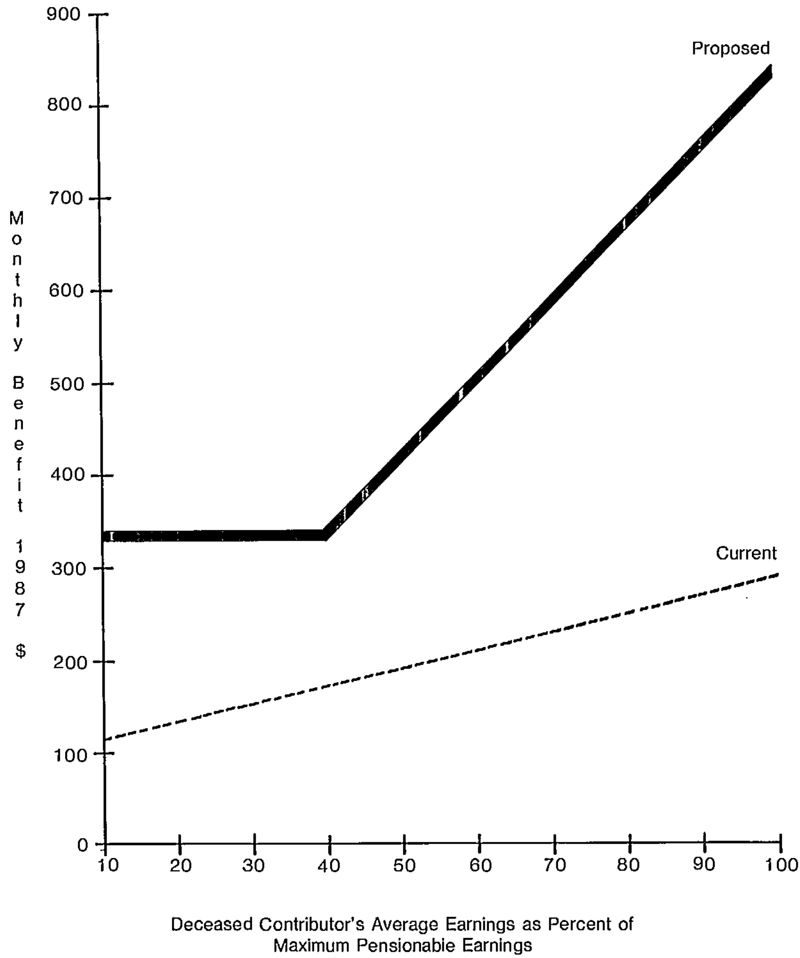
The surviving spouse's benefit would be much higher than the continuing pension currently provided by the Plan. The level of the monthly benefit might be 40% of the average insured earnings of the deceased spouse with a minimum benefit set at 40% of the maximum benefit.

For example, if the deceased spouse had been insured to a maximum, 40% of the average insured earnings would represent a surviving spouse's monthly benefit in the amount of $834.43. A minimum benefit set at 40% of the maximum benefit would represent a surviving spouse's monthly benefit in the amount of $333.77. At the present time surviving spouses, aged 45 to 64 at the time of the death of their spouse and who are eligible for a maximum benefit, receive a monthly cheque in the amount of $290.36. Survivors under age 45 without children and not disabled receive a lower amount.

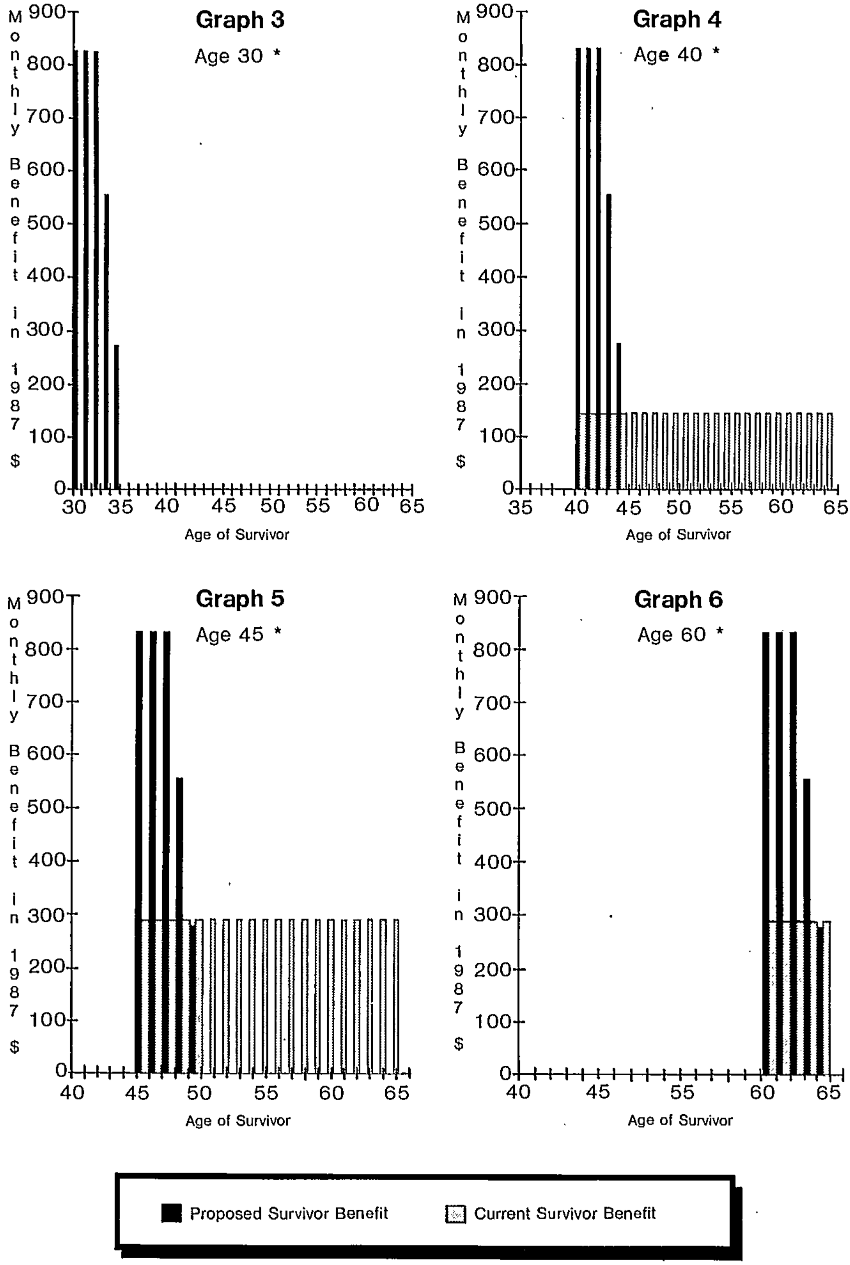
A comparison of maximum and minimum benefits in relation to the insured earnings of the deceased spouse under the current and proposed benefit structures is illustrated below.

Graph 2

Monthly CPP benefit paid to surviving spouses under the age of 65 (1987 rates)



Benefits payable to a surviving spouse under the current and proposed structures (1987 rates)



* Age of the survivor at the time of the contributor's death. Assumes that the deceased contributor had maximum pensionable earnings and that the surviving spouse is not disabled or caring for dependent children.

Under the proposed structure, the surviving spouse's benefit would be paid in full for a period of three years following the death of the contributor and would then be phased out over two further years.

If, for example, the deceased contributor's pensionable earnings were insured at the maximum level, a monthly benefit of $834.43 (1987 rates) would be paid in full for the first three years following the death of a contributor. Two-thirds of the maximum benefit, that is, $556.29, would be paid in the fourth year and 1/3 of the maximum benefit or $278.14, in the fifth year. No benefit would be paid after the fifth year.

However, if the survivor is left with young children, the full benefit would be paid until the youngest child reaches age 7, and would be phased out similarly over the following 2 years.

The surviving spouse's benefit would cease at age 65 if it is still in pay. At that age, other aspects of the CPP (the retirement pension) and the income security system (Old Age Security, Guaranteed Income Supplement) come into effect.

Graphs 3 to **6** on page 21 illustrate the differences between the two structures, current and proposed, in terms of the level of benefits and the period of payment.

The graphs illustrate that the proposed benefit structure allows for a much higher monthly benefit regardless of the surviving spouse's age. The current structure, in comparison, provides a substantially lower benefit payable for life.

For a more detailed comparison of benefits under the current and proposed structures, see the boxes "Current Structure" and "Proposed Structure" on pages 26 and 27; see also Appendix B, "Effect of the Reform Proposal on Beneficiaries".

ii) Transfer of credits

Under current provisions, the survivor pension is calculated without considering the length of marriage. This means that a surviving spouse who is married to a contributor for a relatively short time may receive as large a pension as a survivor who participated with a contributor in the building of their CPP assets over many years.

Furthermore, with the introduction in 1978 of credit-splitting upon marriage breakdown, and the introduction in 1987 of retirement pension assignment and the extension of credit-splitting provisions to common-law unions, CPP credits accumulated during marriage or cohabitation are now regarded as a joint entitlement owned and shared by both partners.

In recognition that marriage is an economic partnership and that survivors had expected to share retirement income with their spouses, it is proposed that 60% of the CPP pension credits earned by the deceased spouse during the marriage be transferred to the surviving spouse's CPP account.

The transfer of credits would take place at the time of the contributor's death and would replace the current pension paid to survivors over the age of 65. Moreover, the credits transferred for any year, when added to the surviving spouse's own pension credits, could not exceed the maximum pensionable earnings in that year.

Graphs 7 and **8** illustrate how the transfer of credits would work. **Graph 7** provides an example of a CPP record of earnings for a surviving spouse who does not have pensionable earnings credited to his or her account for the period prior to the contributor's death. **Graph 8** provides an example of a survivor with pensionable earnings before and during the period of cohabitation. The examples assume a period of cohabitation of 12 years. In both cases, the deceased spouse had maximum pensionable earnings for each year throughout his or her contributory period.

The graphs show that in the case of a survivor with no pensionable earnings **(graph 7)**, the transfer of credits could create entitlement to CPP benefits for the surviving spouse.

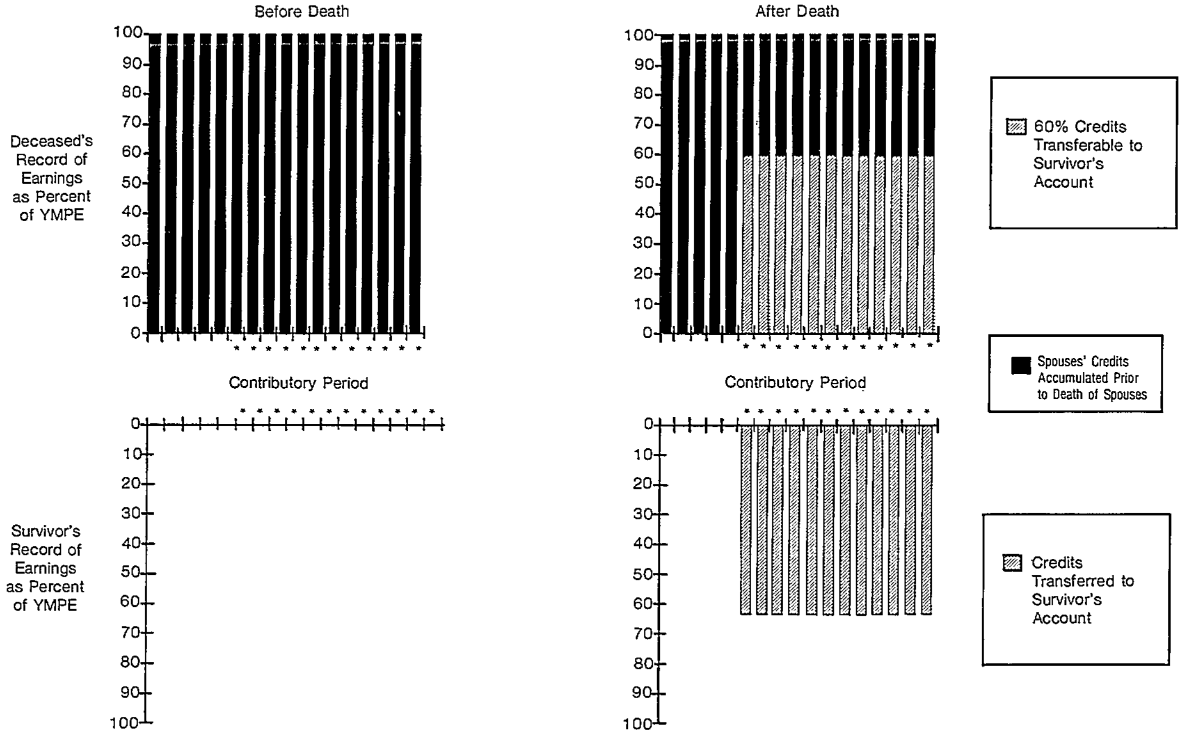
In the case of a survivor with his/her own pensionable earnings **(graph 8)**, the transfer of credits would improve the earnings record by supplementing the survivor's own pensionable earnings up to the maximum pensionable earnings for each year of the period of cohabitation. For example, a survivor with earnings at 60 percent of the Yearly Maximum Pensionable Earnings (YMPE) **(graph 8)** would see 40 percent of the deceased spouse's credits transferred (assuming the deceased spouse was insured at the maximum). The transfer is limited to 40% in this case because credits cannot exceed 100% of the maximum insurable earnings in any year.

Since, under the CPP, entitlement to and the amount of retirement, disability and survivor benefits are based on the presence and level of pensionable earnings credited to an individual's account, the transfer of credits to the surviving spouse's account could provide the survivor with enriched retirement and disability pension protection and, in the event of the survivor's own death, enriched income protection for his or her subsequent survivors.

Because the transfer of credits would be limited to the period of cohabitation, CPP benefits provided to survivors over age 65 could be less than those provided under the current structure. The transfer of

Graph 7

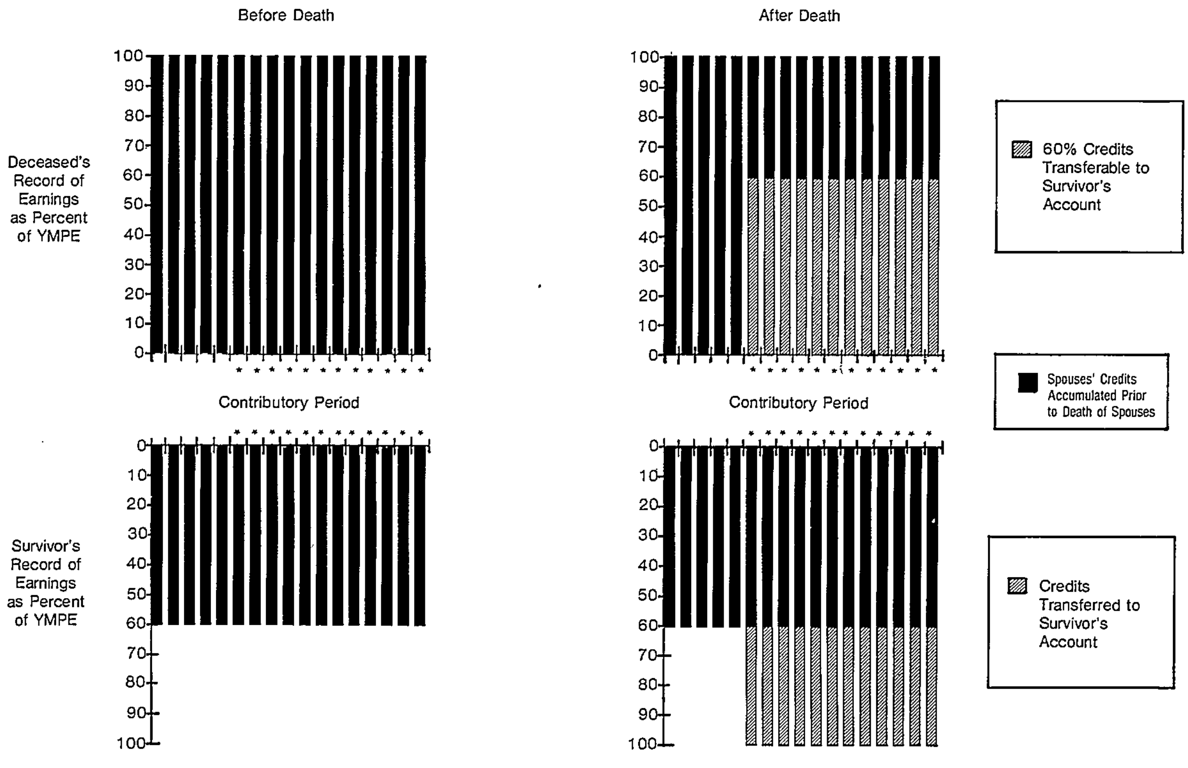
Spouses' CPP Record of Earnings
survivor with no earnings



* Years of Cohabitation

Graph 8

Spouses' CPP Record of Earnings
survivor with earnings



* Years of Cohabitation

credits could result, however, in increased pension coverage for those individuals who had not already earned CPP credits in their own right.

Appendix B "Effect of the Reform Proposal on Beneficiaries" provides more detailed illustrations of the impact of the transfer of CPP credits on the survivor's eligibility for CPP benefits.

iii) Comparison of the current and proposed benefit structures for surviving spouses

The current design and the changes proposed to the surviving spouse's benefit are summarized in the boxes below.

CURRENT STRUCTURE

1. Benefits to surviving spouses under age 65 at the time of the contributor's death

Benefit calculation

- flat-rate $94.79 per month (1987) plus 37.5% of deceased contributor's calculated retirement pension
- reduced by 1/120th *for each month* the survivor is under age 45
- minimum benefit — $0 if survivor is age 35 or younger, is not disabled or has no dependent child
- maximum benefit — $290.36 per month in 1987
- total combined benefit subject to limits if surviving spouse receives a CPP disability or a CPP retirement pension.

Duration

- until age 65 or death of surviving spouse, recalculated at age 65

2. Benefits to surviving spouses at least age 65

Benefit calculation

- 60% of deceased spouse's calculated retirement pension
- if surviving spouse is in receipt of a CPP retirement pension, the total survivor/retirement pension cannot exceed a maximum retirement pension payable at age 65 (unless the retirement pension is actuarially increased for deferred retirement)
- survivor pension only, maximum $312.91 per month in 1987
- survivor/retirement pension, maximum $521.52 per month in 1987

PROPOSED STRUCTURE

1. Benefits to surviving spouses under age 65 at the time of the contributor's death

Benefit calculation

- 40 % of deceased spouse's average insured earnings
- not less than 40 % of maximum benefit
- minimum benefit: $333.77 per month in 1987
- maximum benefit: $834.43 per month in 1987
- total amount subject to maximum benefit limits if surviving spouse also receives an early CPP retirement pension. No limit to the amount of benefits if surviving spouse receives a CPP disability pension.

Duration

- full benefit for 3 years or until youngest child is age 7
- phase-out over 2 years: 2/3 of full benefit in first phase-out year; 1/3 in second phase-out year
- ceases at age 65 or on death of recipient.

2. Transfer of credits to all surviving spouses

- transfer effected at the time of the death of the contributor

Transfer calculation

- 60 % of credits earned by the deceased contributor during each year of marriage or cohabitation
- surviving spouse's total credits (own plus transferred) cannot exceed maximum pensionable earnings for any year

3. Effect of transfer of credits on benefits

- establishes or increases entitlements to CPP retirement, disability and survivor benefits

Benefit calculation (survivor's retirement pension)

- based on total pensionable earnings of the survivor including transferred credits
- additional retirement pension due to transferred credits only, maximum $312.91 per month in 1987
- maximum retirement pension based on transferred and own credits, $521.52 per month in 1987

Children's benefits

The CPP has always recognized that children are normally dependent on the contributor, at least until age 18, and that a measure of the contributor's financial obligation toward the child continues after his or her death. The provision of a short-term benefit to the surviving spouse and the increase in the number of single parent families are factors that reinforce the role of children's benefits.

Therefore, it is proposed that CPP children's benefits not only be retained but be strengthened. Benefits, both for orphans and children of the disabled, would be increased from $94.79 to $121.48 monthly (half of the maximum flat rate payable under the CPP).

Implementation provisions

In recognition that the role of women is in transition, and in order to maintain the stability of the income security system, the proposed benefit structure for surviving spouses would be phased in gradually.

The younger generation, those who are under age 35 at the time of implementation and who may not qualify for benefits under the current structure, would be protected under the proposed structure when they become survivors.

Those who become survivors in the future and who are at least age 35 on the date of implementation of the proposed changes would also be entitled to claim benefits under the new structure. However, these survivors could choose to receive benefits based on the current benefit structure or the proposed benefit structure, whichever is more appropriate.

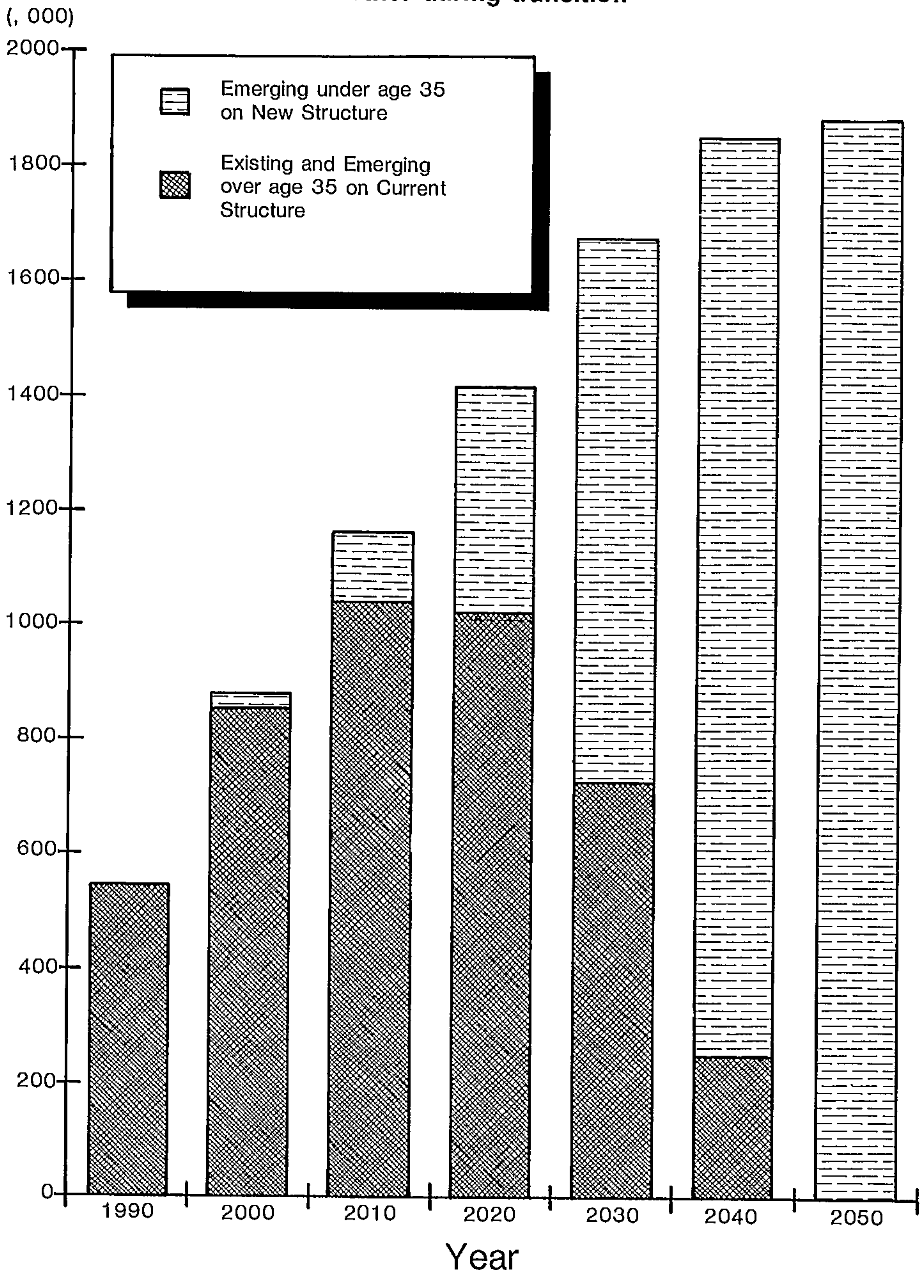
Those who are already in receipt of a survivor benefit would automatically continue to be protected under the current structure.

For a period of time, therefore, two forms of benefit would need to co-exist: benefits based on the current structure (see "Transitional Benefit Structure") and benefits based on the proposed structure.

Graph 9 provides an estimate of the number of beneficiaries who could be covered by one structure or the other at any point in time. It shows that the proposed structure would virtually be fully phased in by the year 2050.

Graph 9

Number of beneficiaries on one structure or the other during transition*



* Assuming 1990 to be the year of implementation for the proposal and 95 years to be a maximum life span, and assuming that eventual survivors who are at least age 35 at the time of implementation would all choose the current structure.

Transitional benefit structure

Improved benefits

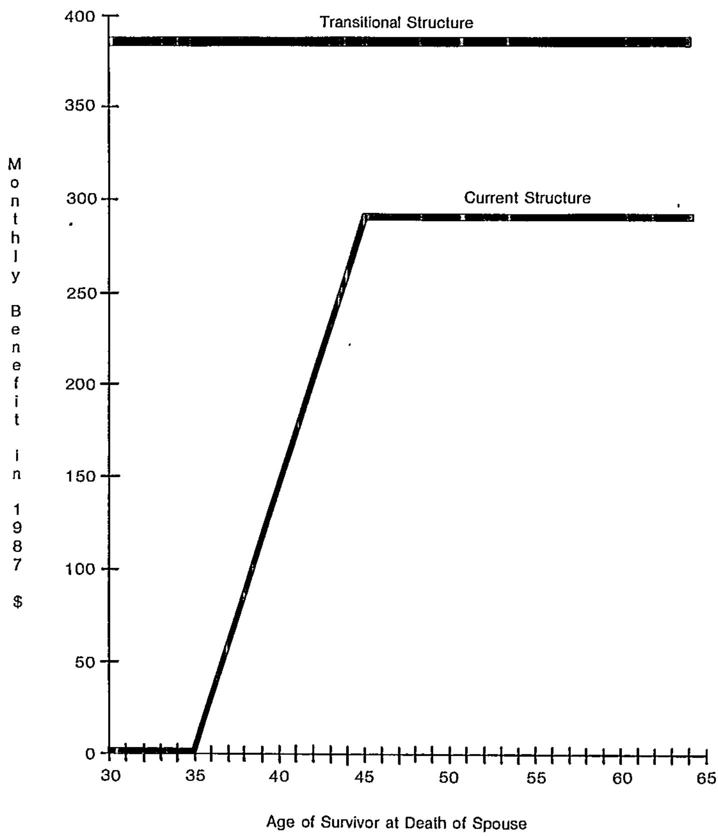
To reflect the recommendation of the Parliamentary Committee on Equality Rights and to improve benefits received by survivors in the "transition" group, the following changes would be made to the current structure:

i) the flat-rate component of current survivor benefits for persons under age 65 would be increased from $94.79 to $189.58 per month.

ii) the reduction of benefits for survivors under age 45 would be eliminated.

Graph 10

Maximum surviving spouse's benefit under current and transitional structures



Graph 10 illustrates the impact of the increase in the flat-rate component and the elimination of the age-related reductions for these beneficiaries. It shows that the largest increase would be for those under the age of 35 who had been denied benefits at the time of the death of their spouse under the previous age rules and who would qualify for a full benefit after implementation of the changes.

V. Effect of the Proposal on Beneficiaries

The reform of the CPP survivor benefit structure would ensure that these benefits are more suited to the needs of Canadian families, both now and in the future. The reform would also be in keeping with the recommendation of the Parliamentary Committee on Equality Rights.

The transitional benefit structure would:

- improve the protection provided to present CPP survivors;
- ensure that benefits paid to present survivors are consistent with the provisions of Canada's *Charter of Rights and Freedoms*; and
- result in more parallel benefits being paid to CPP and QPP survivor beneficiaries during the period of transition.

The new benefit structure for future surviving spouses would:

- provide benefits which do not discriminate on the basis of age or disability;
- provide benefits that would better ensure that survivors can maintain their financial independence during the difficult years of adjustment to a new situation; and
- create or increase a survivor's entitlement to CPP protection in the event of his or her own disability, retirement or death.

Furthermore, the increase in the benefit amount for dependent children would:

- ensure continuous, improved support to dependent children of the deceased.

The gradual phasing in of the proposed structure would:

- ensure that the proposed measures are implemented in a way that is fair to both present and future CPP survivors.
- maintain the stability of the income security system.

Beneficiaries on the transitional structure

Beneficiaries who were under age 45 at the time of death of their spouse, but who are not disabled and who have no dependent children, would no longer have the benefit amount reduced because of age. Those who were under age 35 at the time of death of their spouse, and who could not qualify for benefits because they have no dependent children or are not disabled, would be entitled to receive the surviving spouse's benefit.

As a result of the increase in the flat-rate and the removal of the age reduction factor, CPP survivors under age 65 at the time of implementation would receive an increase of at least $94.79 in their monthly benefits.

As of January 1, 1987, the CPP paid survivor benefits to approximately 171,000 spouses under the age of 65. Of those under the age of 45, it is estimated that some 4,000 would have received a reduced pension. All of these persons would receive an immediate benefit increase.

There would be no change in the pensions paid to present CPP surviving spouses after age 65. Survivors in this age group have benefited from changes effected January 1, 1987, for the continuation of benefits on remarriage and for improvements in the calculation of combined survivor/retirement pensions.

Also, there would be no change for disabled survivors who are in receipt of a combined CPP survivor/disability pension. The disability flat-rate was increased to $242.95 monthly, effective January 1, 1987, and the amount of the combined survivor/disability benefit is calculated using the higher of the two flat-rates.

Similarly, future survivors, who would be entitled to choose to receive benefits under the transitional structure, could also benefit from these changes.

Beneficiaries on the new benefit structure

The proposed benefit structure for survivors under age 65 would provide a higher benefit for a shorter period of time. If the new structure were in place in 1987, the new monthly benefit could range from a minimum of $333.77 to a maximum of $834.43.

These surviving spouses would also receive a transfer of credits in replacement of the survivor pension currently payable over the age of 65. The transfer of credits would improve or create CPP entitlements for survivors with low or no previous CPP credits. The increase in the survivor's CPP retirement or disability pension due to the transfer of credits would be related to the length of the period of cohabitation. Assuming that the changes were implemented in 1990, by year 2020, all survivors under the age of 65 would qualify for survivor benefits under the new benefit structure. It is estimated that by the year 2050, the new benefits would be fully phased in.

Furthermore, for a surviving spouse who is disabled, the transfer of pension credits might create entitlement to a CPP disability benefit of his/her own or increase the amount of a CPP disability benefit already in pay.

Moreover, the survivor/disability benefit would no longer be subject to combined benefit rules (as is presently the case with combined survivor/disability benefits). Instead, the full surviving spouse benefit would be provided, in addition to the full amount of any CPP disability benefit (including any increase resulting from the transfer of pension credits). Based on the number of CPP recipients receiving both survivor and disability benefits, some 5,000 persons could benefit from this measure in any one year.

Children of Deceased and/or Disabled Contributors

Benefits paid on behalf of the dependent children of deceased contributors would be increased from $94.79 to $121.48 monthly. As of January 1, 1987, the CPP paid children's benefits on behalf of about 88,000 orphans.

The proposed increase in children's benefits would also benefit some 45,000 children of CPP disability beneficiaries. Benefits paid on behalf of children of survivors who are in receipt of combined survivor/disability benefits would thus increase from $189.58 to $242.96 per month. Consequently, the increase in children's benefits would provide improved income on behalf of some 133,000 children.

Appendix B "Effect of the Reform Proposal on Beneficiaries" illustrates in more detail the effect of the proposal on the level of benefits.

VI. Effect of the Proposal on Program Costs

Program expenditures

The effect of the proposed changes on the profile of CPP expenditures over time is best described by grouping the proposal into two sets of measures.

First, there are the measures associated with the transitional benefit structure. These include: 1) the increased flat-rate component of survivor benefits under the current legislation from $94.79 to $189.58; and 2) the increased expenditures as some future survivors choose the benefit structure which is to their financial advantage. These measures would increase program expenditures during the period of transition, but would be phased out over time.

Second, there are the measures associated with the new benefit structure. These include: 1) the replacement of survivor pensions by the higher short-term benefit and the transfer of pension credits; and 2) the increase in the monthly benefits paid to children of deceased or disabled contributors from $94.79 to $121.48. These measures would gradually increase program expenditures as the new benefit structure is phased in. Once the structure is fully phased in, however, it is estimated that program expenditures would stabilize at a lower level than in the absence of the proposed changes.

Tables 1 and **II** compare the expected CPP expenditures related to survivor benefits (surviving spouse's benefit, orphan's benefit, disabled contributor's child's benefit and the death benefit) under the

Table I

Estimates of effect of the proposal on CPP expenditures*

Year	Existing provisions	Proposed provisions	Variation from existing
		($ Millions)	
1990	1,773	2,151	378
2000	4,117	4,975	858
2010	8,277	9,871	1,594
2020	15,392	17,015	1,623
2030	27,760	26,479	−1,281
2040	47,679	40,018	−7,661
2050	76,568	66,157	−10,411
	(% of total CPP expenditures)		(% of CPP survivor benefit expenditures)
1990	18.14	22.01	21.32
2000	19.57	23.65	20.84
2010	18.18	22.51	19.26
2020	16.25	17.96	10.54
2030	14.80	14.11	−4.61
2040	15.03	12.61	−16.07
2050	14.46	12.50	−13.60

* Expenditure estimates were provided by the Department of Insurance and are based on assumptions contained in the 1986 Actuarial Report.

proposed structure with expenditures expected under the current structure. To facilitate this comparison, changes in program expenditures are shown in relation to total estimated survivor benefit expenditures for the existing structure and as a percentage of total expected program expenditures **(Table I)**. Estimated changes in expenditures are also shown in relation to insured earnings **(Table II)**.

Regardless of which basis of comparison is used, the expenditure estimates shown in **Tables 1** and **II** indicate that while the transitional benefit structure would result in an increase in CPP benefit payments, the total package of measures would not raise overall program expenditures in the long run. Rather, when the proposed structure is fully phased in, CPP expenditures are expected to be lower than they would be if the current structure remained unchanged.

Further information on expenditures is provided in Appendix C.

Table II

Estimates of effect of various elements of the proposal expressed as a percentage of contributory earnings*

Year	New Measures	Transitional Structure	Total Proposal
1990	0.05	0.16	0.21
2000	0.16	0.11	0.27
2010	0.19	0.09	0.28
2020	−0.05	0.22	0.17
2030	−0.29	0.21	−0.08
2040	−0.29	0.02	−0.27
2050	−0.22	0.00	−0.22

* Expenditure estimates were provided by the Department of Insurance and are based on assumptions contained in the 1986 Actuarial Report.

Financing the proposed benefits

The amendments to the Canada Pension Plan which took effect on January 1, 1987, ensure that the CPP will remain financially healthy in the future. Starting in 1992, and every five years thereafter, federal and provincial finance ministers will review the Plan to ensure that the contribution rate schedule is appropriate in light of projected Plan expenditures and Fund accumulations.

Changes to survivor benefits would require higher contribution rates at some point between now and 2026. The scheduling and amount of these increases would be determined by federal-provincial discussion at appropriate times in the future.

Conclusion

This proposal was developed through extensive federal-provincial consultation. It is the culmination of a comprehensive study on how best to adapt CPP survivor benefits to circumstances of present and future survivors, while keeping within the spirit of Canada's *Charter of Rights and Freedoms*.

The proposal is designed to implement fundamental reforms in a gradual way in order to allow Canadian families, as well as managers of other pension plans and insurance programs, the requisite time to adapt.

By consulting with the public at this time, the Government of Canada is ensuring that any future reforms will reflect the needs and wishes of the Plan's contributors.

Ultimately, it is their Canada Pension Plan.

Appendix A
Description of Existing Survivor Provisions

Under the Canada Pension Plan (CPP), if a contributor dies, financial support is provided to the surviving spouse and dependent children of the contributor. In addition, a lump-sum death benefit is paid to the estate of the deceased contributor. In order for dependents to qualify for CPP survivor benefits, the deceased contributor must have made contributions to the Plan for the lesser of 10 years or 1/3 of his or her contributory period and must have made contributions in at least three calendar years. All benefits in pay are fully indexed to the Consumer Price Index.

I. Surviving Spouse's Benefit

Under the CPP, a surviving spouse can be either a legal spouse or a person of the opposite sex with whom the deceased contributor had been living in a conjugal relationship for at least a year and with whom the contributor was living at the time of death.

It may be noted that for each contributor only one survivor's pension is payable and that only one survivor's pension can be paid to an individual at any time. If survivor's pensions are payable in respect of two or more deceased contributors, the largest of the possible pensions is payable.

Benefit paid to a surviving spouse under age 65

At present, the benefit entitlement for a surviving spouse who is under the age of 65 is based on the surviving spouse's age at the time of the contributor's death (subject to the presence of dependent children or a disability as defined by the CPP).

Survivors with dependent children, those with a disability and those age 45 to 65 at the time of the death of their spouse are eligible for a full survivor pension. This pension is comprised of a flat-rate portion ($94.79 per month in 1987) and a portion related to the earnings of the deceased contributor (37.5% of the deceased spouse's retirement pension*).

For survivors who are under age 45 at the time of the contributor's death, and who are not disabled or caring for dependent children of the contributor, the benefits are reduced by 1/120 for each month the survivor is under age 45. For example, a survivor just reaching age 44 at the time of the contributor's death would have a 10 percent reduction (12/120) in the pension that otherwise would have been payable, while a survivor who is age 36 would receive 10% of the pension that otherwise would have been payable.

Survivors who are under age 35 at the time of the death of their spouse, and who are not caring for a dependent child of the contributor, are not eligible for a survivor benefit until they reach age 65, unless they are disabled or become disabled.

A survivor who ceases to be disabled or to care for a dependent child prior to age 45 will have a similar reduction made in the survivor benefit, based on his or her age at that time.

It may also be noted that the level of combined benefits awarded to a survivor beneficiary who also receives a CPP disability or retirement pension is subject to limitations. In the case of combined survivor/disability benefits, the pension will equal the sum of the earnings-related portions of the disability and survivor benefits (up to a ceiling of one maximum CPP retirement pension) plus the larger of the two flat-rate portions.

In the case of combined survivor/retirement benefits, the maximum pension is equal to the sum of the earnings-related portions (up to a ceiling of one maximum retirement pension) plus the survivor flat rate.

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* The retirement pension is calculated on the basis of the average contributor's insured earnings, adjusted to reflect wage levels at the time of death. For this purpose, only years from age 18 or 1966, whichever is the later, up to the contributor's death are considered to be part of the contributory period. Thus, for example, if a contributor died at age 21 having three years of maximum pensionable earnings, the surviving spouse could receive a maximum pension. The retirement pension is equal to 25% of the contributor's adjusted and averaged monthly earnings.

Benefit paid to a surviving spouse 65 years of age and over

The amount of the pension paid, once a surviving spouse has reached age 65, is directly related to the deceased contributor's credited earnings (no flat-rates are payable for survivors who are over age 65). The amount of the surviving spouse's benefit represents 60% of the deceased spouse's calculated retirement pension.

A survivor who is eligible for a surviving spouse's benefit may also be eligible for a retirement pension. In such cases, the two benefits are awarded in one monthly payment. However, the amount of the monthly combined benefit cannot exceed the maximum retirement pension. If the total exceeds this ceiling, the survivor benefit is reduced accordingly. Thus, for example, if a survivor is entitled to a maximum CPP retirement pension, his/her surviving spouse's benefit is reduced to zero.

Table 1 shows the maximum monthly benefits payable to the surviving spouse of a deceased contributor who was insured at the maximum pensionable earnings. Benefit amounts are shown for various ages of the surviving spouse at the time of the death of the contributor.

II. Orphan's Benefit

A monthly flat-rate benefit is payable on behalf of each dependent child of a deceased contributor up to age 18. The benefit is also payable between ages 18 and 25 if the child is attending school or university on a full-time basis. The monthly amount of this benefit in 1987 is $94.79. Under the CPP, a child may receive up to two flat-rate benefits at any one time, in respect of natural or adoptive parents.

Table 1

CPP pensions payable to the surviving spouse of a deceased contributor with maximum pensionable earnings (1987 rates)

UNDER AGE 65
AT THE TIME OF THE CONTRIBUTOR'S DEATH

Age of the survivor	Monthly benefit ($) CPP
under 35*	0
40-44*	145.18
45-54	290.36
55-64	290.36

OVER AGE 65
AT THE TIME OF THE CONTRIBUTOR'S DEATH

survivor's own retirement pension ($)	CPP survivor pension ($)
0	312.91
260.76 (1/2 Max.)	260.76
521.52 (Max.)	0

* With no dependent child and not disabled.

III. Death Benefit

A death benefit is payable to the estate of the deceased contributor. It is a lump-sum amount representing 6 times the deceased spouse's calculated monthly retirement benefit, or 10% of the year's maximum pensionable earnings, whichever is less. The maximum benefit payable in 1987 is $2,590.

Appendix B
Effect of the Reform Proposal on Beneficiaries

The reform proposal has four basic components: 1) a new benefit structure which would provide surviving spouses under the age of 65 with higher benefits over a shorter period of time and a transfer of a portion of the deceased contributor's credits to the surviving spouse's CPP account; 2) implementation provisions which allow a gradual phase-in of the new surviving spouse's benefit; 3) a transitional benefit structure which would improve benefits and equity in treatment for survivors who will be entitled to benefits based on the current structure during the period of transition; and 4) improved children's benefits.

I. Surviving Spouse's Benefit

The new surviving spouse's benefit would be phased in gradually. Thus, from the time of implementation of the new benefit structure to the time when it will be totally phased in, some surviving spouses would be entitled to benefits based on the current or the new benefit structure. Consequently, the impact of the proposal for change would be different depending on whether or not an individual is already in receipt of a CPP surviving spouse's benefit, and, for future beneficiaries, on the individual's age at the time of implementation.

The following chart shows the effect of the implementation provisions on benefit entitlements for existing and future CPP survivor beneficiaries.

Eligible individual	Benefits based on
Existing survivors All those already in receipt of a CPP survivor pension at the time of implementation	Transitional structure
Future survivors All those under age 35 at the time of implementation, when they become survivors	New structure
All those over age 35 at the time of implementation, when they become survivors	Choice between benefits based on the transitional and the new structure

Treatment of existing CPP beneficiaries

i) Surviving spouses under the age of 65

Surviving spouses under the age of 65 already in receipt of a CPP survivor benefit at the time of implementation would continue to receive their benefits based on the current benefit structure. However, benefits for these beneficiaries would be improved by doubling the flat-rate portion of the CPP survivor benefits payable to them. The maximum benefit payable to surviving spouses under the age of 65 would therefore be increased to $385.15 per month from the current $290.36.

Proposed measures would also ensure that benefits payable to these beneficiaries would be consistent with the *Charter of Rights and Freedoms*. This would be accomplished by eliminating the age reduction factor affecting benefits payable to survivors under the age of 45 who have no dependent children and are not disabled at the time of death of their spouse.

As a result, existing CPP surviving spouses under the age of 65 at the time of implementation would receive an automatic increase in their monthly pension. The magnitude of the increase in the amount of the monthly survivors' benefit would depend on whether or not surviving spouses were in receipt of full or reduced benefits based on their age.

The relative impact of the increase of the flat-rate benefit and the elimination of the age reduction factor is illustrated in **Table I.** It compares the level of monthly pensions payable to surviving spouses under the age of 65 prior to implementation (current benefit structure) with benefits that would be payable to surviving spouses receiving improved benefits during the period of transition (transitional benefit structure).

Monthly benefit levels are shown for various ages of the survivor at the time of the death of the contributor and for various levels of insured earnings of the deceased contributor, expressed as a proportion of the Year's Maximum Pensionable Earnings (YMPE).

Table I

Monthly benefits payable to surviving spouses under the age of 65 (1987 rates)

Insured earnings of the deceased contributor as percentage of YMPE	Current benefit structure Age of survivor at time of the death of the contributor			Transitional benefit structure
	Under 35	40	45 - 64	All ages
25%	$ 0	$71.84	$143.68	$238.47
50	0	96.29	192.58	287.37
75	0	120.73	241.47	336.26
100	0	145.18	290.36	385.15

Table I illustrates that these survivors would receive at least a minimum monthly increase of $94.79 (1987 rates). Survivors who were receiving a reduced benefit or no benefit due to their age at the time of death of their spouse will receive comparatively larger increases in their monthly pension.

For example, an individual who is in receipt of a full CPP survivor pension at the time of implementation would receive, under existing provisions, a monthly pension of $290.36, when the deceased contributor's insured earnings were at the maximum pensionable earnings. With benefits under the transitional structure, this same survivor would be eligible for benefits equal to $385.15, a monthly increase of $94.79.

If an individual was age 40 at the time of the spouse's death, he/she would be currently receiving reduced monthly benefits of $145.18. Under the transitional benefit structure, this survivor would be eligible for monthly benefits equal to $385.15, a monthly increase of $239.97.

Surviving spouses, who had not qualified for benefits because they were under the age of 35, had no dependent children and were not disabled at the time of the death of their spouse, would upon application be entitled to receive full benefits, that is, $385.15 per month if earnings of the deceased contributor had been insured to a maximum.

ii) Disabled survivors

The increase in the survivor benefit flat rate would have no effect on the total amount of CPP benefits paid to surviving spouses under the age of 65 who are in receipt of a CPP survivor and a disability pension at the time of implementation.

According to existing rules, the total amount of a CPP disability/survivor pension payable to an individual is the sum of the earnings-related portions of both the survivor and the disability pensions, up to the maximum CPP retirement pension plus the larger of the two flat-rate benefits. As of January 1, 1987, the disability flat rate was increased to $242.95 per month. Since the existing disability flat rate is larger than the proposed survivor flat rate, the proposed increase would have no effect on the combined benefit awarded to disabled survivors.

iii) Surviving spouses over the age of 65

Existing CPP survivors over age 65, would see no change in their survivor pension; some of these survivors have, however, already benefited from improvements in the retirement/survivor combination rules and from the continuation of benefits on remarriage that were implemented on January 1, 1987.

Treatment of future survivors — Individuals under the age of 35 at time of implementation

Individuals who are under the age of 35 at the time of implementation, would, when they become survivors, be subject to the new benefit payable to survivors under the age of 65 and to the proposed transfer of credits effected at the death of the spouse. The transfer of credits would replace the survivor pension currently payable to survivors aged 65 and over.

i) New surviving spouse's benefit

The new benefit would be substantially higher than the benefit currently paid to survivors under age 65. For example, at the 1987 rates, the maximum new benefit would be $834.43 per month, as compared to $290.36 currently payable.

Table II

Monthly benefits payable to surviving spouses under the age of 65 (1987 rates)

Insured earnings of the deceased contributor as percentage of YMPE	Level of new benefit*	Level of current benefit payable to age 65	
	All ages	Reduced age 40	Full
25 %	$333.77	$71.84	$143.68
50	417.22	96.29	192.58
75	625.83	100.73	241.47
100	834.43	145.18	290.36

* payable in full over first three years or until youngest child reaches age 7.

The new benefit would be awarded independently of the age of the survivor and would be completely related to the earnings of the deceased contributor (no flat-rate portion). Therefore, the increase in benefit levels would be more substantial for younger survivors who would not have received a pension otherwise or who would have received a reduced pension under the existing provisions, and for surviving spouses of contributors with higher insurable earnings.

As an illustration of the impact of the change on the level of benefits payable to spouses under the age of 65, **Table II** compares the level of monthly benefits that would be payable under the new benefit structure with benefits payable under the current structure. The table compares benefits for various levels of insured earnings of the deceased contributor and ages of the survivor.

Table II shows, for example, that an older survivor, who is entitled to a full benefit under the current provisions and whose spouse's insured earnings were at 25 % of maximum, would receive a monthly benefit of $333.77 under the new structure. This compares with a monthly benefit of $143.68 that is currently payable, a difference of $190.09 per month.

As a more extreme example, a younger survivor entitled to a reduced benefit under the current provisions and whose spouse's earnings were insured to a maximum would receive a monthly benefit of $834.43 under the new structure, compared to $145.18 that is currently payable, a difference of $689.25.

Although benefits payable under the new structure would be substantially higher than benefits currently paid, the payment period of the new benefits would generally be shorter.

Under the current structure, benefits are payable until the survivor's 65th birthday. At age 65, the survivor's benefit is recalculated and combined with the survivor's own retirement pension, if any.

The new benefits would be payable in full during the first three years following the death of the spouse and would be phased out over the following two years. If the surviving spouse has dependent children under the age of seven in his/her care, the monthly new benefit would be paid in full at least until the youngest child reaches the age of seven and would then be phased out over the next two years. New surviving spouse's benefits, if still in pay, would be terminated when the survivor reaches age 65.

Therefore, the impact of the changes would vary, depending on the age of the survivor at the time of the contributor's death; the younger the survivor, the greater the impact.

For example, a surviving spouse who is 35 years old at the time of the contributor's death could potentially receive benefits for 30 years under the current structure. Under the new structure, this survivor could receive benefits for 5 years, or up to 9 years if dependent children are present. A survivor aged 60 at the time of the contributor's death could receive benefits for 5 years under both structures.

ii) Benefits for disabled survivors

Under the proposal, contrary to the existing rules, disabled survivors under the age of 65 would be eligible for the full survivor benefit as provided to other survivors. The survivor benefit would be provided in addition to the full amount of the CPP disability pension the survivor would otherwise be entitled to receive. It should be noted that the amount of the disability pension could also be increased through the transfer of credits.

Therefore, under the new benefit structure, disabled survivors could be eligible for a benefit as high as $1,468.52 per month for the period immediately following the death of their spouse ($634.09 in disability benefits until he/she reaches age 65, plus $834.43 in survivor benefits for the first 3 years following the death of the spouse phased out over the next 2 years). In comparison, the maximum combined survivor/disability benefit this surviving spouse could receive under the current benefit structure is $764.47 per month.

iii) Transfer of CPP credits

Under the current provisions, when a survivor reaches age 65 the survivor pension is recalculated to represent 60% of the deceased contributor's retirement pension and is combined with the survivor's own retirement pension up to a maximum of one retirement pension.

Under the proposal, the survivor's benefit would be terminated at age 65. However, all surviving spouses would be eligible for a transfer of 60% of the deceased contributor's credits from his/her account to the survivor's own account, up to the maximum insurable earnings for each year of cohabitation. The transfer would take place at the time of the death of the contributor.

By increasing the level of the survivor's pensionable earnings, the transfer could benefit surviving spouses or their families at the time when they become eligible for CPP benefits (disability, retirement, death).

Where there was a long period of cohabitation, retirement benefits received by survivors over the age of 65 as a result of the transfer of credits would be similar to survivor benefits under current provisions. Where there was a shorter period of cohabitation, however, the transfer might result in a smaller survivor/retirement pension being paid than that currently provided.

On the other hand, for survivors who have not contributed to the CPP, the transfer could create entitlement to CPP retirement, disability and survivor benefits. For example, in order to be eligible for disability benefits under current provisions, contributions must have been made to the Plan for 2 of the last 3 years, or 5 of the last 10 years in the contributory period. Disabled survivors who did not meet these minimum contributor requirements could, with the transfer of credits, gain eligibility to benefits on the date of the transfer. For survivors who have contributed to the CPP, the transfer of credits could increase the level of CPP benefits that otherwise would have been payable.

Impact on disability benefits

Since the disability benefit is based in part on the retirement pension, the impact of the transfer on the level of the CPP disability benefit would be similar to the impact of the transfer on the retirement pension. Under current provisions, the earnings-related portion of the disability pension represents 75 percent of the retirement pension. The impact of the transfer on the disability pension could therefore be equivalent to 75 percent of the impact of the transfer on the retirement pension, calculated on page 50. There are, however, factors which specifically impact on disability benefits.

Under current provisions, periods of disability are excluded from the calculation of the average earnings on which a retirement, and by consequence a disability benefit, is based. Therefore, the impact of the transfer of credits, which is effected over the years of cohabitation, would depend on the time of onset of the survivor's disability in relation to the cohabitation period.

For instance, survivors could not benefit from the transfer of credits for portions of the period of cohabitation during which they receive a CPP disability benefit. This may be particularly significant if the disability occurred (and disability benefits were in pay) before the start of the cohabitation period. In this circumstance, no transfer of credits would be effected. If the disability occurred during the cohabitation period, credits could only be transferred for the period prior to the payment of the disability benefit. When disability occurs after the death of the spouse, however, the full impact of the transfer would be felt on both eligibility for and level of disability benefits.

Impact on retirement pensions

The transfer of CPP credits, by increasing the survivor's level of pensionable earnings, could increase the survivor's own retirement pension.

Table III illustrates the impact of the transfer of credits on the survivor's CPP retirement pension. It provides the amount of the additional retirement pension that would be payable to a surviving spouse on account of the transfer of credits for various combinations of insured earnings of the deceased contributor and of the surviving spouse.

Table III

Net increase in survivor's monthly retirement benefit due to the transfer of credits (1987 rates)

Years of Cohabitation	Level of deceased contributor's earnings as percentage of YMPE											
	50%				75%				100%			
	survivor's earnings as percentage of YMPE				survivor's earnings as percentage of YMPE				survivor's earnings as percentage of YMPE			
	0%	50%	75%	100%	0%	50%	75%	100%	0%	50%	75%	100%
5	$19.58	$19.58	$16.32	$0	$29.37	$29.37	$16.32	$0	$39.16	$32.64	$16.32	$0
10	39.16	39.16	32.64	0	58.74	58.74	32.64	0	78.33	65.27	32.64	0
15	58.74	58.74	48.95	0	88.12	88.12	48.95	0	117.49	97.91	48.95	0
20	78.33	78.33	65.27	0	117.49	117.49	65.27	0	156.65	130.54	65.27	0
25	97.91	97.91	81.59	0	146.86	146.86	81.59	0	195.82	163.18	81.59	0
30	117.49	117.49	97.91	0	176.23	176.23	97.91	0	234.98	195.82	97.91	0
35	137.07	137.07	114.23	0	205.61	205.61	114.23	0	274.14	228.45	114.23	0
40	156.46	156.46	130.38	0	234.68	234.68	130.38	0	312.91	260.76	130.38	0

When **Table III** is read vertically, the effect of the years of cohabitation on the size of the increase in the retirement pension can be noted.

For example, the transfer would provide a surviving spouse, who has no insured earnings of his or her own and whose spouse had earnings at 50% of the YMPE, with a $19.58 retirement pension if the cohabitation period was 5 years. If the cohabitation period was 30 years, the survivor would be provided with a $117.49 retirement pension.

Under the proposal, the sum of the survivor's own credits and the transferred credits for any year cannot be greater than the maximum pensionable earnings. Therefore, the impact of the transfer on the amount of the CPP retirement pension, and consequently the disability benefit, would also be dependent on the level of pensionable earnings of the deceased contributor and of the survivor. As illustrated in **Table III,** when the surviving spouse has his/her own earnings credits which would result in a large retirement pension, the impact of the transfer of credits is proportionally reduced. For example, when the survivor has contributed at the maximum (100% of YMPE), the transfer of credits would not increase the level of the retirement pension even if the period of cohabitation was 40 years.

This is also the case with the existing post-65 survivor pension. Under the current benefit structure, when a survivor is entitled to both a retirement and a survivor pension, the survivor pension is reduced to the extent that the sum of the two benefits does not exceed one maximum retirement pension.

Table IV shows the monthly survivor benefits payable to survivors over age 65 under the current benefit structure according to the average level of earnings of both the survivor and the deceased contributor.

As can be seen in **Table IV**, when the survivor has contributed at 75% of the YMPE, the largest current survivor benefit paid is $130.38.

Similarly, as shown in **Table III**, when the survivor had earnings at 75% of the YMPE and the deceased spouse had insured earnings at 50%, the impact of the transfer of credits (with 40 years cohabitation) would be equal to the value of the post-65 survivor benefit of $130.38 that would be payable under the current structure.

Consequently, the transfer will benefit mainly surviving spouses with lower than maximum pensionable earnings as does the current post-65 survivor benefit.

Table IV

Monthly survivor benefits payable to survivors over the age of 65 (1987 rates)

Survivors' earnings as percentage of YMPE	Deceased spouses' earnings as percentage of YMPE			
	25%	50%	75%	100%
0%	$78.23	$156.46	$234.68	$312.91
25	78.23	156.46	234.68	312.91
50	78.23	156.46	234.68	260.76
75	78.23	130.38	130.38	130.38
100	0	0	0	0

A comparison of the benefit amounts given in **Tables III** and **IV** illustrates the full impact of the proposal on the level of CPP retirement benefits. The increase in the retirement pension resulting from the transfer of credits will tend to be smaller than the current survivor pension (60% of the deceased spouse's calculated retirement pension) when the period of cohabitation is of a relatively short duration. The most extreme example would be that of a survivor with no contributory earnings of his/her own who was married to a contributor with maximum pensionable earnings for only a brief period. **Table IV** shows that such a survivor could receive, under the current benefit, a maximum survivor pension of $312.91 (in 1987) compared to $39.16 that the same survivor would receive as a result of the transfer of credits under the proposed rules **(Table III).**

It is important to note that a direct comparison of the benefit amounts shown in **Tables III** and **IV** is only valid if it can be assumed that the level of earnings of the surviving spouse is the same for periods within and outside the period of cohabitation.

For example, **Table III** indicates that if earnings of the deceased contributor were insured to a maximum and the surviving spouse's average earnings were 50 percent of the CPP maximum during the 15 years of cohabitation the surviving spouse would receive an increased retirement benefit of about $97.91 under the transfer of credits.

Table IV indicates that the same surviving spouse would receive a monthly survivor benefit of $260.76 under existing provisions, a difference of $162.85.

However, it is quite possible, for example, that the same survivor could have had earnings of 50 percent of the maximum during the period of cohabitation, but lifetime average earnings of 75 percent as a result of higher earnings outside the cohabitation period. In this case, the existing survivor benefit, as indicated by **Table IV,** would be $130.38, or $32.47 more than the increase in the retirement pension due to the transfer of credits **(Table III)** for that individual.

This example shows that the evaluation of the impact of the proposed transfer of credits on the level of benefits is highly dependent on assumptions made about the lifelong earnings profile of the survivor, and therefore, can only be done on a case by case basis.

Treatment of future survivors — Individuals over the age of 35 at time of implementation

Survivors who are over the age of 35 at the time of implementation will have a choice, when they become survivors, between the transition benefit (with the increased flat rate for survivors under the age of 65 and the current 60% pension for survivors over the age of 65) and the new benefit for surviving spouses under the age of 65 and the transfer of credits.

i) Surviving spouses under the age of 65 at the time of the contributor's death

To illustrate the choice available to survivors under the age of 65, **Table V** compares the levels of monthly benefits payable under the new and transitional benefit structures for various levels of insured earnings of the deceased contributor.

Table V indicates that, in all cases, monthly levels of the new benefits are higher than those provided under the transitional benefit structure. However, since the payment period under the two benefit structures is different, the surviving spouse would have to take into consideration the difference in the payment period as well as the difference in the levels of the monthly benefit.

Table V

Monthly benefits payable to surviving spouses under the age of 65 (1987 rates)

Insured earnings of the deceased spouse as percentage of YMPE	Level of benefits under the new structure*	Level of benefits under the transitional structure
25%	$333.77	$238.47
50	417.22	287.37
75	625.83	336.26
100	834.43	385.15

* Payable in full over first three years or until yougest child reaches age 7.

Table VI

Actuarial present value of new and transition benefits* (1987 $)

Spouse's earnings as percentage of YMPE	Age of widow at death of spouse					
	40 years old		45 years old		60 years old	
	New structure	Transition structure	New structure	Transition structure	New structure	Transition structure
25%	$21,880	$51,189	$18,417	$43,140	$14,724	$12,969
50	27,350	61,684	23,021	51,985	18,405	15,628
75	41,025	72,179	34,532	60,830	27,607	18,287
100	54,700	82,674	46,042	69,675	36,810	20,946

* Takes into account only benefits payable up to age 65.

Table VI gives the actuarial present value of the total stream of monthly benefits payable to survivors under the age of 65, under the two types of benefits. Monthly benefits are given for various levels of insured earnings of the deceased contributor. Since the value of the benefits takes into consideration the probability of death and probability of presence of children, benefit levels are estimated for widows and are discounted using interest rate assumptions in the 1986 CPP actuarial report.

It can be seen from **Table VI** that for most survivors aged 60 to 65, there would, in fact, be no real choice. Under the new benefit structure, survivors in this age group would not only receive a higher monthly benefit than under the transitional structure, but, when the payment period is taken into consideration, would also receive, in total, larger benefits. For example, a female surviving spouse aged 60 whose deceased husband had maximum insured earnings, would receive benefits with an actuarial present value of $36,810 under the new structure, compared with $20,946 under the transitional structure.

For other survivors under the age of 65, the choice may be less clear-cut. For example, a 40-year-old widow with children in her care would be faced with a choice of receiving a higher monthly benefit under the new structure until the year the youngest child reaches age 7, or a smaller benefit under the transitional structure but for a longer period of time.

When estimated total monthly payments are taken into consideration, this widow could be faced with a choice of receiving benefits with an actuarial present value of $54,700 under the new benefit structure or $82,674 under the transitional structure if the spouse was insured at the maximum. These survivors will have to weigh their needs for income replacement over the period of adjustment following the death of their spouse with their possible long-term need for income supplementation.

ii) Surviving spouses over the age of 65 at the time of the contributor's death

For survivors with a long period of cohabitation, there would be little difference in benefits awarded after age 65 under the two structures. However, for survivors whose period of cohabitation may not have been long, the decision could also depend on the relative impact of the retirement pension resulting from the transfer of credits, compared with the current post-65 survivor benefit.

As the section on the impact of the transfer of CPP credits shows, a survivor's own level of insured earnings outside the period of cohabitation, including expected earnings during the period following the death of the spouse, could be a determining factor in choosing the benefit structure most appropriate to him/her.

II. Children's Benefits

At the time of implementation, monthly benefits payable to children of survivors and children of disabled contributors would automatically be increased from $94.79 to $121.48 (1987 rates).

Disabled survivors who have gained eligibility for disability benefits through their own contributions to the Plan could receive an increase in benefits payable on behalf of their children on two counts: as children of a deceased contributor and as children of a disabled contributor. Monthly benefits payable on behalf of their children would increase to $242.96 from $189.58.

Disabled survivors, who would become eligible for disability benefits through the transfer of credits, would be entitled to claim a child of a disabled contributor benefit in addition to the orphan's benefit. The monthly benefits payable on behalf of a child could increase to $242.96 from $94.79, which is payable under the current structure.

III. Death Benefit

The new provisions would not modify the current death benefit. The estate of a deceased contributor would be eligible for a lump-sum benefit equal to six times his/her calculated monthly retirement pension up to 10% of the Year's Maximum Pensionable Earnings in the year of death ($2,590).

Appendix C
Impact on CPP Expenditures

The proposal for reform of survivor benefits would have an impact on program expenditures and implications for the premiums that people would have to pay. **Table I** presents the estimated impact of the proposed changes on total CPP expenditures in current dollars and as a percentage of CPP insured earnings. It assumes the changes would be implemented in 1990 and shows the impact on the CPP expenditure profile for the next 60 years, until the new structure is fully phased in.

It can be seen from **Table I** that, as a result of the proposed changes, expenditures would increase during the period of transition. In the long run, when all CPP survivor benefits would be paid according to the new benefit structure, CPP expenditures are estimated to be lower than they would have been under the provisions that exist today.

For purposes of analysis, the components of the proposal for reform can be separated into new and transitional structures.

New structure

The new structure includes changes in spouse's benefits for survivors under age 65 from a continuous monthly pension to higher temporary benefits. For survivors over age 65, the 60 percent derived pension would be replaced by a transfer of 60 percent of the CPP credits accumulated during the period of cohabitation. Finally, benefits awarded to children of deceased contributors and to children of disabled contributors would be increased.

Transitional structure

Individuals who become survivors after implementation and who were over 35 at that time would be able to choose between receiving survivor benefits in accordance with the new or the transitional

Table I

Estimates of effect of the proposal on CPP expenditures*

Year	Existing provisions	Proposed provisions	Variation from existing
		($ Millions)	
1990	1,773	2,151	378
1995	2,735	3,371	636
2000	4,117	4,975	858
2005	5,914	7,069	1,155
2010	8,277	9,871	1,594
2015	11,361	13,462	2,101
2020	15,392	17,015	1,623
2025	20,736	21,604	868
2030	27,760	26,479	−1,281
2035	36,697	32,386	−4,311
2040	47,679	40,018	−7,661
2045	60,856	50,528	−10,328
2050	76,568	66,157	−10,411
		(% of contributory earnings)	
1990	5.63	5.84	0.21
1995	6.18	6.45	0.27
2000	6.75	7.02	0.27
2005	7.18	7.45	0.27
2010	7.88	8.16	0.28
2015	8.95	9.23	0.28
2020	10.09	10.26	0.17
2025	11.27	11.34	0.07
2030	12.03	11.95	−0.08
2035	12.06	11.86	−0.20
2040	11.81	11.54	−0.27
2045	11.54	11.26	−0.28
2050	11.49	11.27	−0.22

* Expenditure estimates were provided by the Department of Insurance and are based on assumptions contained in the 1986 Actuarial Report.

structure. Survivors whose spouse died prior to implementation would receive benefits in accordance with the transitional structure.

The transitional structure would be based on the current benefit structure. However, the flat-rate component of the survivor benefits awarded to those remaining on the current structure would be raised from \$94.79 to \$189.58. As well, benefits for survivors under age 45 would not be subject to the age reductions presently applicable.

Table II presents levels of CPP expenditures associated with the new benefit structure and the transitional structure in current dollars and as a percentage of both total CPP and CPP survivor expenditures.

As shown in **Table II**, measures associated with the new structure have both increases and reductions in overall expenditures associated with them over time. The increase in the early years is due to the more generous total amount of surviving spouse's benefits payable under the age of 65 and to the increase in children's benefits. The long run reduction in costs would be associated with lower total expenditures paid to survivors over the age of 65. Overall, CPP expenditures would be expected to increase progressively for the first 35 years after implementation and then decrease gradually to stabilize at a lower level in the year 2050 when the new structure is fully phased in.

The impact of the transitional structure, as indicated in **Table II**, would be immediately felt on the Plan expenditures as the flat-rate component is increased for existing CPP survivors and as eventual survivors choose the benefit structure most appropriate to their own circumstances.

Table II

Estimates of effect of various elements of the proposal on CPP expenditures

Year	Existing provisions	Variation due to new benefit structure	Variation due to transitional benefit structure
		($ Millions)	
1990	1,773	73	305
1995	2,735	157	479
2000	4,117	257	601
2005	5,914	435	720
2010	8,277	753	841
2015	11,361	1,260	841
2020	15,392	2,084	−461
2025	20,736	815	53
2030	27,760	−1,781	500
2035	36,697	−5,296	985
2040	47,679	−9,113	1,452
2045	60,856	−11,792	1,464
2050	76,568	−11,953	1,542
	(% of CPP expenditures)	(% of survivor expenditures*)	
1990	18.14	4.12	17.20
1995	19.05	5.74	17.51
2000	19.57	6.24	14.60
2005	19.65	7.36	12.17
2010	18.88	9.40	10.16
2015	17.47	11.09	7.40
2020	16.25	13.54	−3.00
2025	15.26	3.93	0.26
2030	14.80	−6.42	1.80
2035	14.91	−14.43	2.68
2040	15.03	−19.11	3.05
2045	14.95	−19.38	2.41
2050	14.46	−15.61	2.01

* CPP surviving spouse benefits, orphan benefits, death benefits and benefits paid to children of disabled contributors.