Securing the Canada Pension Plan

Agreement on Proposed Changes to the CPP

February 1997

CPP Securing the Canada Pension Plan

The Canada Pension Plan (CPP)

The CPP was established in 1966 to provide all members of the paid labour force in Canada and their families with a base on which to build their retirement income, as well as benefits in the event of serious disability or death. The plan covers all employees and self-employed persons between the ages of 18 and 70 with annual earnings over $3,500, except residents of Quebec. (The Québec Pension Plan is a separate plan legislated by the Province of Québec which is similar to the CPP.) The plan is financed by compulsory contributions from workers and their employers and interest on accumulated plan reserves.

The Canada Pension Plan is one of three pillars of Canada's retirement income system. The other part of the public pension system is Old Age Security and the Guaranteed Income Supplement, which will be replaced in 2001 with the new Seniors Benefit. As well, tax assistance for retirement savings is provided through employer-sponsored registered pension plans (RPPs) and personal registered retirement savings plans (RRSPs).

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Introduction

Changes are being proposed to the Canada Pension Plan. The changes will ensure that the CPP is affordable to future generations and can be sustained in the face of an aging population, increasing longevity, and the retirement of the baby boom generation.

The changes to secure the Canada Pension Plan are supported by the federal government and the provinces of Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island, Québec, Ontario, Manitoba and Alberta. This support is sufficient to meet the statutory provision which requires that changes to the CPP receive the concurrence of at least two-thirds of the provinces with two-thirds of the population of Canada.

The measures are the result of the latest statutory review of the CPP which began more than a year ago. The CPP Act requires federal and provincial governments, as joint stewards of the plan, to review the CPP every five years to make sure the plan continues to be financially secure. The review included joint federal-provincial public consultations in every province and territory across Canada from April to June 1996, as well as a series of ministerial meetings. (For details see Annex I.) An information paper outlining the problems facing the CPP served as the basis for the public consultations. Based on these consultations, ministers agreed to solve the problems facing the CPP quickly and to be guided by a set of nine principles (see Annex II).

Comparison of Existing CPP and New CPP Proposals

- All retired CPP pensioners or anyone over 65 as of December 31, 1997 are not affected by the proposed changes. Anyone currently receiving CPP disability benefits, survivor benefits, or combined benefits, is also not affected.
- All benefits under the CPP will remain fully indexed to inflation.
- The ages of retirement — early, normal, or late — remain unchanged.

	Existing CPP	New CPP Proposals
Reserve fund	Equal to two years of benefits and declining	Growing to five years of benefits
Contribution rates	Rising to 10.1 % by 2016	Rising to 9.9 % by 2003, then held steady
	Projected to increase to 14.2% in 2030	Will not rise above 9.9 %
Year's basic exemption	Currently $3,500 indexed to wages	Frozen at $3,500
Year's maximum pensionable earnings (YMPE)	Indexed to wages	No change
Investment policy	Invested in non-negotiable provincial bonds	New funds invested in a diversified portfolio of securities
Provincial borrowing	Provinces borrow at federal rates	Limited provincial borrowings at their own market rates
New retirement pensions and earnings-related portion of disability and survivor benefits	Based on average of last 3 years' yearly maximum pensionable earnings (YMPE)	Based on average of last 5 years' YMPE in line with majority of private plans

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- All benefits under the CPP will remain fully indexed to inflation.
- The ages of retirement — early, normal or late — remain unchanged.

	Existing CPP	New CPP Proposals
Normal retirement	Age 65	No change
Early retirement	Starting at age 60	No change
Late retirement	Up to age 70	No change
Eligibility for disability benefits	Must work and contribute in 2 of last 3 or 5 of last 10 years	Must work and contribute in 4 of last 6 years
Retirement pensions for disability beneficiaries	Based on year's maximum pensionable earnings (YMPE) when recipient turns 65, then indexed to prices	Based on YMPE at time of disablement with subsequent price indexing
Combined survivor-disability benefits	Ceiling equal to max. retirement pension plus larger of two flat-rate components	Ceiling is one maximum disability pension
Combined survivor - retirement benefits	Ceiling equal to max. retirement pension	No change to ceiling
All benefits	Fully indexed	No change
Death benefit	6 mos. retirement benefits, max. $3,580 grows with wages	6 mos. retirement benefits to max. $2,500 and frozen

Proposed Changes to the CPP

What remains the same

- All retired CPP pensioners or anyone over 65 as of December 31, 1997 are not affected by the proposed CPP changes. Anyone currently receiving CPP disability benefits, survivor benefits, or combined benefits is also not affected.
- All benefits under the CPP will remain fully indexed to inflation.
- The ages of retirement — early, normal or late — remain unchanged.

Fuller Funding

- The CPP will move from pay-as-you-go financing to fuller funding to build a much larger reserve fund. It will grow in value from about two years of benefits currently to about five years of benefits.
- Contribution rates will rise over the next 6 years to 9.9 per cent of contributory earnings and then remain steady, instead of eventually rising to 14.2 per cent.
- The year's basic exemption -- the first $3,500 of earnings on which no contributions are paid — will be maintained and frozen.

A New Investment Policy

- The reserve fund that will build up will be prudently invested in a diversified portfolio of securities at arm's length from governments to get higher returns. This will help pay for benefits for future generations.

Changes to Benefits and their Administration

- The formula for calculating retirement pensions will be based on the average of maximum pensionable earnings in the last five years, instead of the last three. Five years is the most common way of calculating pension benefits in private sector pension plans.
- Administration of disability benefits will be tightened.
- To be eligible for disability benefits, workers must have made contributions in 4 of the last 6 years.
- Retirement pensions for disability beneficiaries will be based on maximum pensionable earnings at the time the disability occurs, and then indexed to age 65 by prices. This is the same as other CPP benefits.
- Rules for combining survivor and disability benefits, and survivor and retirement benefits, will be changed.
- The death benefit will be equal to six months of retirement benefits, up to a maximum of $2,500.

Stewardship and Accountability

- Accountability to Canadians will be strengthened.
- Canadians will receive regular reports on their CPP pensions.
- Federal-provincial reviews will be required every three years, rather than every five.

Details of the Proposed Changes

A Balanced Approach

Today's CPP contribution rate is 5.85 per cent shared half and half between employees and employers. Contributions are levied on people's earnings between $3,500 and $35,800. Under the existing legislated schedule, CPP contribution rates were slated to rise to 10.1 per cent by 2016. The chief actuary of the CPP indicated, however, that unless changes were made, the CPP fund would be exhausted by 2015, and contribution rates would have to increase to more than 14 per cent by 2030 to cover escalating costs. In short, the CPP was not sustainable.

Based on consultations across Canada, federal and provincial ministers developed a set of nine principles to guide them in solving the problems faced by the CPP. (See Annex II for complete set.)

Principle: The CPP is a key pillar of Canada's retirement income system that is worth saving.
Principle: The solutions to the CPP's problem must be fair across generations and between men and women.

Ministers agreed on a three-part approach to restoring the financial sustainability of the CPP. It is proposed that it be made affordable and fairer to future generations by:

- moving to fuller funding by accelerating the legislated contribution rate increases;
- improving the rate of return on the CPP fund by adopting a new investment policy; and
- slowing the growth in costs by tightening the administration of benefits, and changing the way some benefits are calculated.

Fuller Funding

Principle: The CPP must be affordable and sustainable for future generations. This requires fuller funding and a contribution rate no higher than the already legislated future rate of 10.1 per cent. In deciding how quickly to move to this rate, governments must take economic and fiscal impacts into account.

Pay-as-you-go financing made sense in 1966 when the CPP was put in place, given the economic and demographic conditions that prevailed at that time. The rapid growth in productivity and the labour force, and the very low interest rates, which characterized that era have changed significantly, with the result that pay-as-you-go financing is no longer fair or appropriate. Building up a larger fund — fuller funding — and earning a higher rate of return through investment in the market will help to pay for the rapidly growing costs that will occur once baby boomers start to retire.

Accordingly, Ministers agreed that contribution rates must rise more rapidly now to cover the costs of each contributor's own benefits plus a uniform share of the unfunded burden that has built up, instead of passing on all these costs to future generations

It is proposed that combined employee and employer CPP contributions rise in steps from the current rate of 5.85 per cent to reach 9.9 per cent of contributory earnings in 6 years' time. This level, called the "steady-state rate", should sustain the CPP with no further rate increases. It is lower than the 10.1 per cent rate currently legislated for 2016, and much lower than the 14.2 per cent rate projected for 2030 by the chief actuary of the CPP.

The following schedule shows the proposed rate increases.

Comparison of existing and proposed schedule of contribution rates

Year	Existing schedule			Proposed schedule			Increase or decrease in combined rate
	Employee rate	Employer rate	Combined rate	Employee rate	Employer rate	Combined rate	
	%	%	%	%	%	%	percentage points
1997	2.925	2.925	5.85	3.0	3.0	6.0	0.15
1998	3.05	3.05	6.1	3.2	3.2	6.4	0.30
1999	3.175	3.175	6.35	3.5	3.5	7.0	0.65
2000	3.3	3.3	6.6	3.9	3.9	7.8	1.20
2001	3.425	3.425	6.85	4.3	4.3	8.6	1.75
2002	3.55	3.55	7.1	4.7	4.7	9.4	2.30
2003	3.675	3.675	7.35	4.95	4.95	9.9	2.55
2004	3.8	3.8	7.6	4.95	4.95	9.9	2.30
2005	3.925	3.925	7.85	4.95	4.95	9.9	2.05
2006	4.05	4.05	8.1	4.95	4.95	9.9	1.80
:							
2016	5.05	5.05	10.1	4.95	4.95	9.9	-0.20
2030	*7.1**	*7.1**	*14.2**	4.95	4.95	9.9	-4.30

* The existing legislated 25-year schedule does not go beyond 2016. The chief actuary of the CPP has projected that the rate would have to continue to rise to reach a combined rate of 14.2% in 2030 to cover growing expenditures.

The additional .15 percentage point increase in the contribution rate for 1997 will be collected when 1997 tax returns are filed. At most, the extra cost to employees will be $24.

The Year's Basic Exemption

CPP contributions are paid on earnings up to $35,800. This is called the year's maximum pensionable earnings (YMPE). Contributions are not paid on the first $3,500 of earnings although pensions are earned on this amount. This amount is called the year's basic exemption (YBE). This is unlike private pension plans in which contributions are paid on the full amount on which pensions are earned. The YBE is of particular benefit to lower-income earners as they are exempted from contributions on a larger portion of their earnings than are higher-income earners.

The YBE currently grows over time to reflect growth of average wages. In order that people pay contributions on closer to the full amount of earnings on which they receive CPP pensions, it was suggested in the CPP Information Paper that the YBE could be eliminated or reduced. Instead, it is proposed that it be maintained at $3,500, and then frozen at that level. This will preserve an element of subsidy to lower-income earners. It will also mean that over time more part-time and part-year workers will be covered by the CPP and build towards their pensions.

The impact of the proposed contribution rates and YBE freeze on employees' contributions is as follows:

Employee contributions at earnings of $35,800 (i.e., 1997 YMPE)
(Employers pay equal amounts; self-employed persons pay twice these amounts)

Year	Existing schedule*	Proposed schedule and YBE freeze*	Increase or Decrease in contributions
	$	$	$
1997	945	969	24
1998	985	1,035	50
1999	1,025	1,140	115
2000	1,065	1,275	210
2001	1,105	1,410	305
2002	1,145	1,550	405
2003	1,185	1,635	450
2004	1,225	1,645	420
2005	1,270	1,650	380
2006	1,310	1,655	345
:			
2016	1,630	1,695	65
2030	2,295	1,730	- 565

* For existing schedule, YBE is $3,500. For proposed schedule, YBE is discounted to show effect of YBE freeze (by growth in average wages assumed in CPP 15th actuarial report).

A New Investment Policy

Principle: CPP funds must be invested in the best interests of plan members and maintain a proper balance between returns and investment risk. Governance structures must be created to ensure sound fund management.

At present, the CPP has a fund equal to about two years of benefits. Funds not required immediately to pay benefits are invested in non-marketable securities of provincial governments. Provinces pay interest at the federal long-term bond rate at the time the bonds are purchased.

Fuller funding of the CPP means the fund will grow substantially from about two years of benefits to about five years of benefits over the next two decades. Achieving a higher investment return on the fund would contribute in an important way to keeping contribution rates down in the future. Fuller funding of the CPP therefore requires a new investment policy in order to secure the best possible return for contributors.

It is proposed that CPP funds be prudently invested in a diversified portfolio of securities in the best interest of contributors and beneficiaries. This new policy is consistent with the investment policies of most other pension plans in Canada and the QPP. Prudent assumptions indicate investing the fund in the market could generate an average real return of 3.8 per cent per year — i.e., a return of 3.8 per cent above the rate of inflation.

The fund will be managed professionally at arm's length from governments by an investment board. The CPP Investment Board will be governed by a qualified board of directors of up to 12 members. The Board will be accountable to the public as well as governments and will report its investment results regularly to Canadians.

The Board will be subject to broadly the same investment rules as other pension funds in Canada. The foreign property limit for pension funds will strictly apply. To ensure the fund's entry into the market proceeds smoothly, all of the Board's domestic equity investments will be selected passively, mirroring broad market indexes. This approach will be re-evaluated at the next CPP review.

When provinces borrow from the CPP, they will pay the same rate of interest as they do on their market borrowings. As a transitional measure reflecting historical arrangements, provinces will have the option of rolling over existing CPP borrowings at maturity for another 20-year term. For the first three years, provinces will also have access to 50 per cent of new CPP funds that the Board chooses to invest in bonds. After this three-year period, to ensure the fund's investment in provincial securities is consistent with market practice, new CPP funds invested in provincial securities will be limited to the proportion of provincial bonds held by pension funds in general.

Changes to Benefits and their Administration

A number of changes to the way benefits are administered and calculated are proposed in order to moderate the escalating costs of the CPP. It is intended that the changes come into effect January 1, 1998. These changes will have an immediate and lasting effect on costs. It is projected that they will reduce costs by 9.3 per cent by 2030 compared to what they otherwise would have been at that time.

■ Improving administration

Principle: Governments must tighten administration as the first step toward controlling costs.

The federal government is in the midst of fundamentally redesigning the administration of its income security programs, including the CPP, to serve Canadians better. This will both save money and respond to seniors' requests for better and more timely service. For example, the application period will be shortened, verification procedures will be improved, and overpayments will be minimized.

■ Retirement pensions and earnings-related portions of other benefits

Principle: The CPP is an earnings-related program. Its fundamental role is to help replace earnings upon retirement, disability or the death of a spouse — not to redistribute income. The income redistribution role is the responsibility of the income tax system, the Old Age Security/Guaranteed Income Supplement/Seniors Benefit, and other income-tested programs paid from general tax revenues.

New retirement pensions, and the earnings-related portions of disability and survivor benefits, will now be based on a contributor's average career earnings updated to the average of the year's maximum pensionable earnings (YMPE) in the last five years, instead of the last three years, prior to the commencement of benefits. Most private pension plans use a five-year average.

The change will be phased in over two years. In 1998, pensions will be based on the YMPE in the last four years, and in 1999 and thereafter, the last five years. To illustrate the effect of this change, if this measure had been in place in 1997, the maximum CPP retirement pension would be $724 a month instead of $736 – $12 a month less.

Persons aged 65 or older in 1997, and current CPP pensioners, will not be affected by this change. Neither will people currently receiving disability or survivor benefits.

This is the only change that is proposed to retirement pensions. The existing age of eligibility for full retirement pensions will remain at 65, and all benefits will continue to be fully indexed for inflation. Early retirement pensions will continue to be available from age 60.

■ Disability Benefits

Principle: Disability and survivor benefits are important features of the CPP. However, they must be designed and administered in a way that does not jeopardize the security of retirement pensions.

The CPP is intended to help replace the income of persons in the labour force who become severely disabled and can no longer earn a living. Ministers agreed that it is important that the CPP continue to play this vital role in helping people when they most need it.

However, expenditures on disability benefits escalated dramatically over the last decade. An increase in the number of disability benefits granted to Canadians, and in the average duration of benefits, combined to more than double disability payments between 1987 and 1994. Ministers therefore agreed that disability benefits must be designed and administered in a way that does not jeopardize the security of retirement pensions, and that only those intended by the legislation receive disability benefits.

It is proposed that the test of attachment to the labour force which is required before a person can be eligible for disability coverage under the CPP be strengthened. Individuals must have worked long enough in at least four out of the six years prior to becoming disabled to have made a CPP contribution (i.e., earnings over $3,500). Under the current system, individuals must have contributed in at least two of the last three years, or in at least five of the last ten years. Prior to 1987, disability coverage was available to those who had contributed in at least five of the last ten years and for one third of their working life.

When disability beneficiaries reach age 65, their disability benefits are converted to retirement pensions. At that time, the pensions they receive are often higher than what other Canadians retiring today receive. This is due to the fact that the average age at which Canadians start to draw their CPP pensions is now about 62.5 years of age. This means that, on average, they receive pensions which are only 85 per cent of a full "age 65" pension, whereas the disabled receive the full amount. The option in the CPP Information Paper of converting disability benefits at age 65 to the equivalent of early retirement pensions was rejected.

However, a change is proposed in the way retirement pensions for disability beneficiaries are calculated. The conversion will be based on the year's maximum pensionable earnings (YMPE) at the time of disablement with subsequent full price indexing, rather than on the YMPE at the time the recipient turns 65. This measure is consistent with how other CPP benefits are calculated. It will apply only to people who have not yet reached 65.

After this change, persons with disabilities will continue to receive, when they reach age 65, higher average pensions than the majority of Canadians, but the differential will be less.

In addition to this change, disability benefits will no longer be paid to estates, and persons already receiving early retirement benefits will not be eligible to apply for disability benefits.

There has been a particular concern with the administration of disability benefits. The Auditor General of Canada has criticized it as one of the causes of rapidly escalating CPP costs. He noted that the number of CPP disability beneficiaries increased by 93 per cent over the period 1986-87 to 1995-96 – much more than the increase in the labour force of 12 per cent, and much more than under the Quebec Pension Plan despite the fact that CPP and QPP have very similar legislative definitions of disability.

The administration of disability benefits has recently been tightened. Disabilities are now being assessed more closely in keeping with the legislation, reassessments are being made more frequently to determine if recipients remain disabled, and new appeal procedures that require more careful assessment of disability claims have been established.

■ Combined Benefits

Individuals who receive retirement pensions or disability benefits from the CPP are entitled to further benefits as "survivors" if their spouse dies and had contributed to the CPP. There are rules which govern how these so-called combined benefits are calculated.

New rules are proposed to calculate the combined benefits payable to future beneficiaries eligible for both CPP disability and survivor benefits or CPP retirement and survivor benefits. Current beneficiaries will not be affected. The new rules will be largely the same as those that existed prior to 1987, when the rules were relaxed.

The intent of these changes is to limit the extent to which these benefits can be added together. Unlike retirement pensions, both disability benefits and survivor benefits include "flat-rate" amounts in addition to the usual earnings-related benefits.

Technically, the new rules will be as follows.

Persons age 65 and over who are eligible for both survivor and retirement benefits now receive both benefits up to a ceiling of one maximum retirement benefit. In the future, they will receive the larger of the two benefits, plus 60 per cent of the smaller. There will be no change to the ceiling.

Persons eligible for both survivor and disability benefits now receive the larger of the flat-rate portions of the two benefits, plus the two earnings-related portions of the benefits. There is a ceiling of one maximum retirement benefit plus the larger of the two flat-rate portions. In future, they will receive the sum of the larger of the flat-rate portions, the larger of the earnings-related portions, and 60 per cent of the smaller of the earnings-related portions. The ceiling will be changed to one maximum disability benefit.

■ Death Benefit

It is proposed that the CPP death benefit paid to the estate of a deceased CPP contributor continue to be equal to six months' of retirement benefits, but the maximum limited to $2,500. Currently, the maximum is set at 10 per cent of the year's maximum pensionable earnings — $3,580 in 1997.

The option of eliminating the death benefit was rejected.

Stewardship and Accountability

Principle: Governments must monitor changing economic, demographic and other circumstances that can affect the CPP and act to respond to these changing conditions. Annually, Ministers of Finance should provide Canadians with the appropriate information so they can judge for themselves that the integrity and security of the CPP is being protected.

Principle: Any further benefit improvements must be fully funded.

There must be improved stewardship of the CPP to avoid again putting the sustainability of the CPP at risk. Economic and demographic realities have changed significantly over the years without adequate response. Enrichments to benefits have repeatedly been made without proper adjustments to contributions. Administrative procedures have strayed from the intent of the legislation. And the period of time between statutory reviews may have allowed long-term projections of revenues and expenditures to get off-track without speedy corrective action.

Stewardship will be strengthened. So too must accountability to Canadians be strengthened.

First, the CPP will be reviewed by federal and provincial ministers every three years instead of every five years. If a review should reveal that a significant problem exists, Canadians will be consulted before any changes are made.

Second, any future benefit improvements will be fully funded.

Third, new "default provisions" in the CPP legislation will identify the steps that will take effect if, in any future statutory review of the CPP, the chief actuary calculates the CPP is not sustainable at the steady-state rate, and ministers cannot reach a consensus on actions to sustain the CPP. In the unlikely event that no agreement can be reached, an extra increase in the contribution rate will be phased in over three years, and benefits will be frozen until the subsequent review.

Fourth, Canadians will receive regular statements of the pensions they are earning, with the intent to provide annual statements to all contributors as soon as feasible.

Fifth, the CPP Investment Board will provide quarterly financial statements and annual reports on the performance of the CPP Investment Fund. It will hold public meetings at least every two years in each participating province.

Sixth, the annual reports on the CPP that are currently prepared and tabled in Parliament will be more complete in the information they provide, and will in particular explain how administrative problems are being addressed. Efforts will be made to make these reports more widely available.

In view of these strengthened stewardship and public accountability arrangements, the Advisory Board on the Canada Pension Plan which reports to the Minister of Human Resources Development is no longer necessary.

Important Issues for Further Review

The changes that are proposed as a result of the current review of the CPP will restore its sustainability. A number of other important issues remain to be addressed in order to ensure that the structure of the CPP keeps up with changing times. Others were raised too late in the course of the review, or after consultations were complete, to be given adequate analysis and consideration. These issues will be addressed over the course of the next two years. They are outlined below.

No changes will be considered that would increase the steady-state rate of 9.9 per cent.

- **Partial Pensions:**

The boundaries between work and retirement have become increasingly blurred over time. Nowadays, many Canadians wish to make a gradual transition to retirement. The possibility of providing partial pensions during the transition, while continuing to work and earning further pension credits, will be examined.

- **Survivor Benefits:**

CPP survivor benefits were designed in an era when most women did not work outside the home. Today, 68 per cent of working-age women are in the work force. Ways to bring survivor benefits up to date with changing realities and the needs of today's families will be examined.

- **Credit Splitting:**

The CPP provides for mandatory equal splitting of pension credits between spouses if a marriage breaks down. It also provides for the equal splitting of CPP pensions between retired spouses if requested by one of the spouses. There has been concern expressed that the take up of these provisions has been low. The possibility of requiring mandatory credit-splitting during marriages will be examined.

- **CPP Coverage:**

The CPP now covers earnings up to about the average wage. British Columbia has proposed that coverage be extended up the income scale by raising the limit on pensionable earnings. This proposal was made after consultations were complete, and has not received the detailed scrutiny that any major change to the CPP must have.

- **Stacking of Pensions and Employment Insurance Benefits:**

The pension system was designed to deal with the income needs of persons no longer working, while the EI program was designed to deal with the income needs of working-age people who do not have pensions to rely on. As a result of court decisions, the EI program now covers people beyond age 65. This means that people who are receiving retirement income – OAS, CPP, and private pension income – can now also receive EI benefits. This situation will be reviewed.

■ **Year's Basic Exemption:**

Interest has been expressed in further examining a reduction in the YBE proportional to earnings, as proposed in Quebec's information paper on the QPP.

Next Steps

Draft legislation has been tabled in Parliament. Two-thirds of the provinces with two-thirds of the population of Canada must concur with the legislation by passing orders in council agreeing to the changes. Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island, Quebec, Ontario, Manitoba, and Alberta have agreed to pass orders in council so that the changes can be in effect on January 1, 1998.

Annex I

Summary of the CPP Consultations with Canadians

The first joint public consultations on the Canada Pensions Plan (CPP) were held from April 15 to June 10, 1996 as part of the federal/provincial review of the plan. Guided by panels of federal, provincial and territorial elected representatives, the purpose of the cross-country consultations was to seek public input on changes to the CPP to ensure its sustainability for future generations of Canadians. David Walker, Member of Parliament for Winnipeg North Centre, was the chief federal representative on all the panels.

As a basis for the consultations, the federal and provincial governments released *An Information Paper for Consultations on the Canada Pension Plan* in February 1996. The paper outlined the challenges facing the plan, presented a way of strengthening CPP financing, and set out a series of options for putting the plan on a sound financial footing. The document also spelled out four fundamental questions about the choices that had to be made to solve the problems:

1. How high can CPP rates go before they become unaffordable or unfair?
2. What is the appropriate balance between contribution rate increases and benefit changes?
3. Of the range of possible changes, which are the most or least appropriate?
4. Should CPP funds be invested so as to earn maximum returns? If so, how?

During the two months of consultations, more than 270 individual Canadians and organizations made formal presentations at 33 sessions in 18 cities -- St. John's, Charlottetown, Halifax, Fredericton, Montreal, Ottawa, Toronto, Hamilton, Waterloo, Thunder Bay, Winnipeg, Brandon, Saskatoon, Calgary, Edmonton, Yellowknife, Vancouver and Whitehorse. In addition, the CPP Consultations Secretariat in Ottawa received more than 140 written submissions and almost 6,000 telephone calls to the 1-800 information line. The results of the consultations were summarized in the *Report on the Canada Pension Plan Consultations*, released by federal and provincial ministers last June.

Main Themes

A number of themes emerged regardless of where the consultations were held or who was around the table. The key recurring theme was that **most Canadians believe in the CPP and want it preserved.** Strong support came from organizations and individuals who said the plan is an important and key pillar of the retirement income system because it provides full coverage, portable benefits, inflation protection, low administration costs and a major source of income to seniors.

The consultations also revealed that **many Canadians lack confidence in the future of the CPP and want the plan fixed now**. A large majority of participants believed that substantial changes are needed to sustain the CPP and avoid placing an unacceptable burden on young Canadians.

The third theme that emerged **was a strong desire to see the CPP remain a public pension plan rather than privatized.** Most participants wanted the public system preserved, fearing that its many benefits would be lost if the plan was privatized. A minority, however, wanted the plan privatized and replaced by individual, mandatory retirement savings plans.

Many Canadians, both in and out of the disability community, were concerned with the recent and rapid escalation in the costs of disability benefits. Many favoured moving disability benefits outside the CPP; some believed the disabled would be better served under a separate, comprehensive program and others saw disability benefits as a threat to the CPP's key purpose which is to provide retirement pensions.

A final theme that emerged was that Canadians need to be better informed about the CPP. Many presenters called for ongoing public information programs and better communications to ensure that Canadians, young and old alike, understand the plan better.

What Canadians Said

The voices of Canadians from all segments of society were heard during the consultations. Both mutually shared and opposing views emerged. The following summarizes some of the main views presented by the various participating groups.

The large majority of **seniors** were opposed to any reductions in retirement benefits or access to those benefits as an option for making the CPP more sustainable. Many argued that retired persons or those nearing retirement have based their retirement planning on receiving a certain level of CPP benefits and that those benefits should not be reduced. Some seniors expressed concern that high contribution rates in future would be a burden on young people and said they were prepared to accept some containment of their benefits, especially in light of the fact that they had paid far less for their CPP pensions than they were worth. There was some acceptance of making changes to disability benefits as well as eliminating the death benefit or targeting it to those in need.

Youth representatives were more willing to cut benefits so that future generations would not have to pay very high contribution rates. Almost all voiced concern about the burden that a 14.2-per-cent contribution rate would place on young people. A common theme was the need to ensure intergenerational fairness and secure young Canadians' confidence in the plan by increasing contribution rates quickly.

Women's groups were not in favour of reducing benefits and some called for enhanced benefits. Most advised against reducing the number of drop-out years, de-indexing pensions or raising the age of entitlement. They said that any reform of survivor benefits should recognize that many women have low-paying jobs. Some called for a homemakers' pension plan. Many were critical that the CPP Information Paper did not include a gender analysis of options.

Disability groups opposed reducing benefits for the disabled. A number of presenters were dissatisfied with the existing system and called for a new, separate, comprehensive national program to meet the needs of the disabled. A few groups supported increasing contribution rates but others did not because they said many disabled are low wage-earners who cannot afford to contribute more. Some supported the idea of requiring more substantial labour force attachment to be eligible for CPP disability coverage.

Labour groups wanted benefits maintained even if it meant a rise in contribution rates to 14 per cent. Most labour spokespersons said the CPP is affordable as is and opposed any reductions in benefits on the grounds that disadvantaged Canadians would be adversely affected and the social insurance side of the plan fundamentally altered. A few suggested changes such as income-testing some benefits and only partially indexing others to inflation. Some advocated breaking the link between contributions and benefits and making higher-income earners pay more for the plan.

Business groups strongly endorsed the role of the CPP in providing retirement pensions. A majority supported a balance of increased contribution rates and some benefit changes so that contribution rates do not climb into the double digits. Business supported the idea of investing the CPP fund in the market to maximize returns.

A common theme among **social policy groups** was that the CPP should not be examined in isolation from other social programs or the economic context which includes high unemployment and trends toward less standard work patterns. Social policy presenters, opposed to reducing CPP benefits on the grounds that women and the poor would be disproportionately affected, preferred raising contribution rates. Most participants were against privatizing the plan and mandatory RRSPs, arguing that such plans would not adequately provide for low- and middle-income earners.

A number of **pension professionals** urged the government to broaden the discussion by looking at the role of the CPP in the overall retirement savings system. Most presenters called for a mix of moderate contribution rate increases and benefit reductions. Some said that raising the age of entitlement was unacceptable and most argued against reducing retirement benefits. They favoured removing disability and other ancillary benefits from the CPP, arguing that the plan is a contributory pension and not a social program.

Two of the three participating **taxpayers associations** suggested the CPP be replaced with a mandatory, defined-contribution, fully funded, privately managed plan. They criticized the pay-as-you-go approach and significant increases in contribution rates. The third group expressed concern about the impact of the CPP on younger generations and suggested that the government offer people under 30 a chance to opt out.

ANNEX II

Guiding Principles

In October, 1996 following the consultations process, governments agreed that they must put to rest the worries of Canadians who fear their CPP pensions will not be there when they retire. They therefore agreed to solve the problems facing the CPP quickly and to be guided by the following set of principles in doing so.

1. The CPP is a key pillar of Canada's retirement income system that is worth saving.
2. The CPP is an earnings-related program. Its fundamental role is to help replace earnings upon retirement, disability or the death of a spouse -- not to redistribute income. The income redistribution role is the responsibility of the income tax system, the Old Age Security/Guaranteed Income Supplement/Seniors Benefit, and other income-tested programs paid from general tax revenues.
3. The solutions to the CPP's problems must be fair across generations and between men and women.
4. The CPP must be affordable and sustainable for future generations. This requires fuller funding and a contribution rate no higher than the already legislated future rate of 10.1 per cent. In deciding how quickly to move to this rate, governments must take economic and fiscal impacts into account.
5. Governments must tighten administration as the first step toward controlling costs.
6. Disability and survivor benefits are important features of the CPP. However, they must be designed and administered in a way that does not jeopardize the security of retirement pensions.
7. Any further benefit improvements must be fully funded.
8. CPP funds must be invested in the best interests of plan members, and maintain a proper balance between returns and investment risk. Governance structures must be created to ensure sound fund management.
9. Governments must monitor changing economic, demographic and other circumstances that can affect the CPP, and act to respond to these changing conditions. Annually, Ministers of Finance should provide Canadians with the appropriate information so they can judge for themselves that the integrity and security of the CPP is being protected.

Annex III

Existing Benefits under the Canada Pension Plan

In 1996, 9.7 million workers paid into the CPP and 3.6 million persons received benefits from the CPP.

CPP retirement pensions are paid monthly to all Canadians who have contributed to the plan. The normal age of eligibility is 65. Reduced pensions are available as early as 60, and increased pensions are available up to age 70. The pension replaces up to 25 per cent of average earnings. The 1997 maximum monthly pension is $736.81.

Disability benefits are payable to contributors under age 65 whose capacity to work is affected by a severe and prolonged mental or physical condition, and who have made contributions to the CPP over a sufficient period of time. The maximum monthly CPP disability benefit is $883.10 in 1997.

Surviving spouse's benefit is a monthly benefit paid to the surviving spouse of a deceased contributor. Maximum benefit for individuals under age 65 is $405.25; for those over 65 it is $442.09.

Children's benefit is a monthly benefit in respect of dependent children of a deceased contributor. The maximum monthly benefit is $166.63, and is payable to age 18, or during periods of full-time school attendance to age 25. This benefit is also provided in respect of children of disabled contributors.

The **death benefit** is a one-time payment to, or on behalf of, the estate of a deceased CPP contributor. It is equal to six months of retirement benefits, to a maximum in 1997 of $3,580.