



Now and Tomorrow  
Excellence in Everything We Do



# Overview of Canada's Retirement Income System

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**January 2010**

# Canada at a Glance

- Population 34 million
- Federal state
  - 10 provinces
  - 3 territories
- Bilingual
- Multicultural



# Canada's Retirement Income System

## A multi-pillar system

### Public

Old Age Security  
Program

Universal  
non-contributory

Canada Pension  
Plan - QPP

Mandatory  
contributory

### Private

Registered  
Pension Plans,  
RRSPs, etc

Voluntary

# Pillars of the RIS

	Resource	Expenditures/ Contributions	Number of beneficiaries/ Contributors
<b>PILLAR 1</b> Universal	Old Age Security (1952)	<ul style="list-style-type: none"> <li>• \$24.0 billion in expenditures (2007/08)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Approx 4.4 million beneficiaries</li> <li>▪ Avg. monthly benefit is \$456 (2007/08)</li> </ul>
	Guaranteed Income Supplement (1967)	<ul style="list-style-type: none"> <li>• \$7.4 billion in expenditures (2007/08)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 1.6 million beneficiaries</li> <li>▪ Avg. monthly benefit is \$388 (2007/08)</li> </ul>
<b>PILLAR 2</b> Mandatory	Canada Pension Plan (1966)	<ul style="list-style-type: none"> <li>• \$27.4 billion in expenditures and \$33.6 billion in contributions (2007-2008)</li> </ul>	<ul style="list-style-type: none"> <li>• 12.2 million contributors (2006)</li> <li>• 4.3 million beneficiaries</li> <li>• Avg. monthly benefit at age 65 is \$490.13 (Mar. 2008)</li> </ul>
	Quebec Pension Plan (1966)	<ul style="list-style-type: none"> <li>• \$8.1 billion in expenditures and \$9.4 billion in contributions (2007/08)</li> </ul>	<ul style="list-style-type: none"> <li>• 3.8 million contributors (2006)</li> <li>• 1.5 million beneficiaries</li> </ul>
<b>PILLAR 3</b> Voluntary	Registered Pension Plans (RPPs) (1917)	<ul style="list-style-type: none"> <li>• \$34.4 billion contributed in 2005</li> </ul>	<ul style="list-style-type: none"> <li>• 5.7 million Canadians were enrolled in RPPs in 2005</li> </ul>
	Registered Retirement Savings Plans (RRSPs)(1957)	<ul style="list-style-type: none"> <li>• \$30.6 billion in contributions in 2005</li> </ul>	<ul style="list-style-type: none"> <li>• 6.1 million contributors in 2005 (31% of eligible taxfilers)</li> <li>▪ Median contribution - \$2,630 (2005)</li> </ul>
	Other Assets	<ul style="list-style-type: none"> <li>• 71% of all households headed by a senior were homeowners in 2001 and 85% of these were mortgage free</li> <li>• Over 350,000 working seniors in Canada (2005)</li> <li>• 2.4 million seniors claim the pension credit</li> </ul>	

# First pillar: the Old Age Security (OAS) Program

- The *Old Age Security Act* came into force on January 1, 1952.
- Universal, non-contributory program financed entirely from general tax revenue.
- Benefits are based on residence in Canada and include:
  - the basic Old Age Security Pension
  - an income-tested top-up: the Guaranteed Income Supplement (GIS)
- Indexed quarterly to Price Index.
- The OAS/GIS has played a crucial role to reduce the low-income rates among seniors from 21.4% in 1980 to 4.8% in 2007.

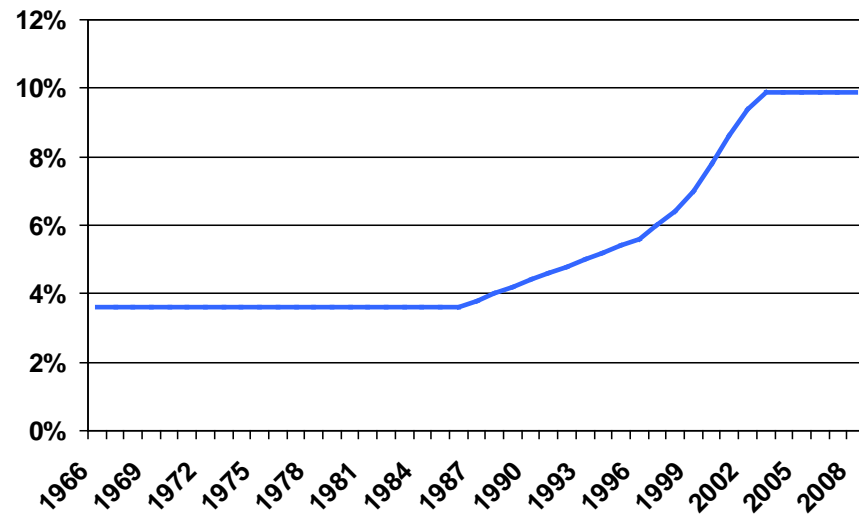
## Second pillar: the Canada Pension Plan (CPP)

- Implemented in 1966 and jointly managed between the provinces and the federal government. Changes to the Plan require approval of 2/3 of the provinces with 2/3 of the population.
- Applies throughout Canada except in Québec, which administers its own plan.
- Objective is to replace 25% of average career earnings up to the average wage at retirement - currently at \$46,300 in 2009. Ancillary benefits: disability, survivor, children's and death benefits.
- The contribution rate is 4.95 percent each for employees and their employers (9.9 percent for the self-employed). Collected by Revenue Agency
- Indexed to price annually.

# 1998 Reforms

- Demographic trends in the 1990's began to exert pressure on the contribution rate.
- Challenge was addressed through 1998 reforms which featured:
  - Contribution rate increases
  - Introduction of arms-length CPP Investment Board
  - CPP reviewed every three years (Triennial Review Process)

Employee/Employer  
Combined Contribution Rate



# 1998 reforms achieved long-term affordability and sustainability

- CPP is financially sound for the next 75 years.
- 23rd Actuarial Report (released October, 2007) indicates:
  - Contributions are expected to exceed expenditures until 2019
  - Total assets are expected to grow to \$235 billion by the end of 2015
  - Assets are projected to be \$1,432 billion or 6.0 times the annual expenditures in 2050
  - Current 9.9% contribution rate will sustain the CPP and will allow the Plan to be well prepared for any economic or social change.

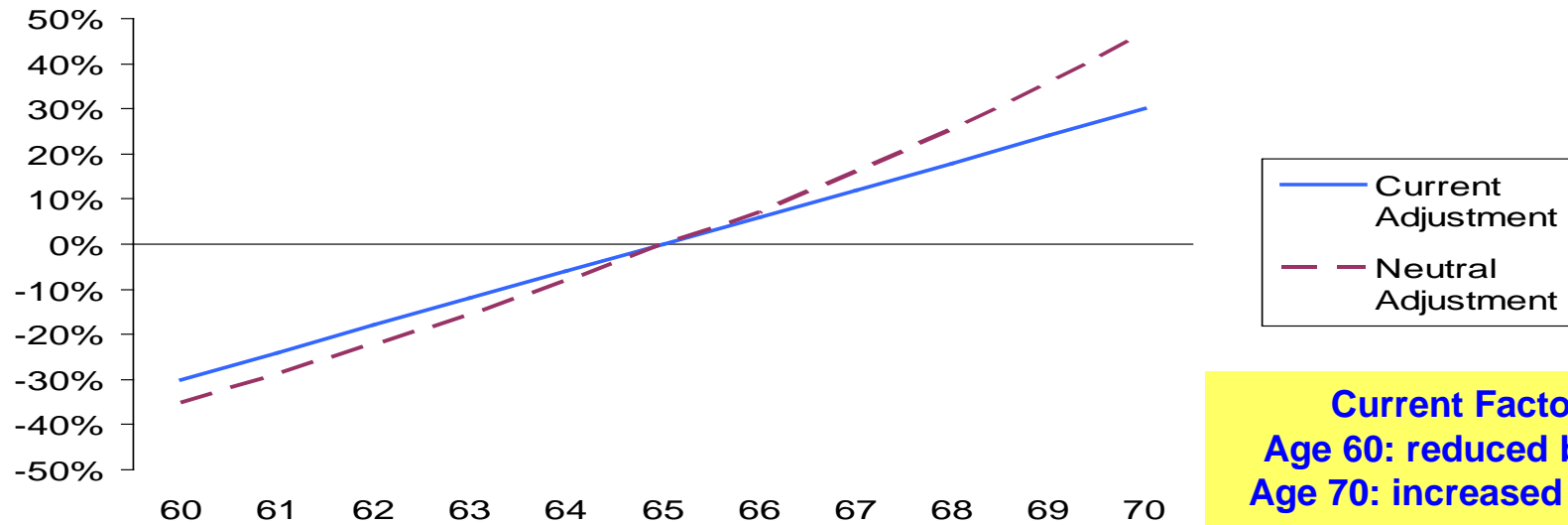


# 2009 Triennial Review Modernizing the CPP

- 1. Restoring adjustment factors neutrality:
  - Ensures equity between early and late retirees
  - Rewards additional years of work
  - Ensures financial neutrality to Plan regardless of age of CPP take-up
  
- 2. Removing the Work Cessation Test:
  - Improves flexibility and equity in the Plan with regards to benefit take-up
  - Removes administrative irritant and lessens older worker/applicant confusion
  - Removes impediment to continued labour market participation
  
- 3. Allowing working beneficiaries to contribute:
  - Ensures equity and a level playing field for all workers
  - Allows working beneficiaries to continue accruing pension benefits in an environment where many don't have other pension coverage

# The Actuarial Adjustment Factors

Pensions are reduced/increased for early/late commencement by an adjustment factor of .05 percent per month (6 percent per year) if the pension is taken before/after the applicants 65<sup>th</sup> birthday.



In 2007, 46% of retirement applicants were 60 years of age.

20% were between 61 and 64 years of age

31% were 65 years of age

3% were over the age of 65

**Current Factors:**  
 Age 60: reduced by 30%  
 Age 70: increased by 30%

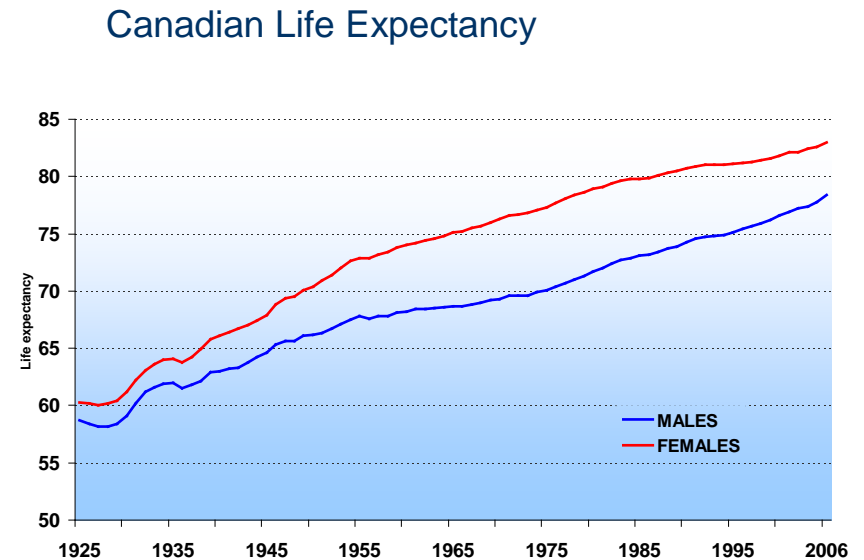
**New Factors (phased-in):**  
 Age 60: reduced by 36%  
 Age 70: increased by 42%

# Third Pillar: Private Pensions and savings

- The 3rd pillar is 'voluntary' (although contributions to a workplace pension plan are usually mandatory where such plans exist) and 'contributory' in nature
- Comprised of private retirement savings including registered (workplace) pension plans (RPPs) and registered retirement savings plans (RRSPs)
- Contributes to the income replacement objective of the RIS

# General trends

- Ageing population
- Increased longevity
- Decline in workplace coverage
- Risk shifting to individuals:  
From DB to DC



# Public Pension Challenges

- Lack of knowledge of public pensions:
  - A 2007 study found that a quarter of non-retired respondents age 45-59 did not understand Canada's public pensions at all.
- Uptake of public pensions among certain groups:
  - Administrative barriers, such as ineffective information and complex claim forms, may hinder access to information and benefits.
  - Barriers that reside within the population, include low literacy, homelessness, mental illness and physical disabilities.
- Demographic changes translate into heavy workload pressure
- Disability benefit is a particular challenge

# Action: Transforming Service Delivery

**Service Canada is:**

**22,000 staff**

**590 points of service**

**56 million calls per year**

**Online services: [servicecanada.gc.ca](http://servicecanada.gc.ca)**

## 1. Deliver seamless citizen-centred service...

*...by providing integrated, one-stop service based on citizen needs and helping to deliver better policy outcomes.*

## 2. Enhance the integrity of programs...

*...by building trust and confidence in the integrity of government programs and by achieving significant savings in program payments.*

## 3. Work as a collaborative, networked government...

*...by building whole-of-government approaches to service that enables information sharing, integrated service delivery and strategic investment for the benefit of Canadians.*

## 4. Demonstrate accountable and responsible government...

*...by delivering results for Canadians and government, savings for taxpayers and transparency in reporting.*

**Service  
Transformation  
Goals**

# Opportunities

- Improving Communication
  - Simple, coherent, targeted & lifelong
  - Outreach Activities and Partnership
- Simplifying the Application Process
  - Automate – Policy Issue is Privacy
- Updating our Tools
  - Multi-Channel integration
  - Pension Calculator, etc.
- Integrating behavioral factors into policy and program design

# Canada

Information on OAS and the CPP, including the CPP annual report can be found at [www.hrsdc.gc.ca/en/oas-cpp/index.shtml](http://www.hrsdc.gc.ca/en/oas-cpp/index.shtml)

Information about the CPP Investment Board can be found at [www.cppib.ca](http://www.cppib.ca)

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