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Canadian Retirement Income System: successes and challenges

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Agenda

- ▶ Successes
 - ▶ Diversification
 - ▶ Tackling poverty
 - ▶ Good governance
- ▶ Challenges (only some!)
 - ▶ Ageing
 - ▶ Coverage



Canadian Retirement Income System is based on a diversified approach to savings

- ▶ Canadian retirement system is a three-tiered system with mixed funding approaches
 - ▶ **Old Age Security Program** – a universal basic pension/supplement aimed at poverty reduction (PAYG)
 - ▶ **Canada / Québec Pension Plan** – mandatory earnings -related DB plans aimed at providing basic retirement income (partially funded)
 - ▶ Occupational Pension Plans and tax-favoured individual savings – voluntary schemes aimed at providing adequate retirement income (fully funded)
- ▶ Today, first two pillars replace about 40% of pre-retirement earnings for an individual with average level of earnings



Canadian retirement income system is well recognized in the world for its capacity to adapt rapidly to changing conditions.



Income from all 3 pillars is necessary to guarantee Canadian seniors decent lives in retirement

Decomposing poverty protection for Canadian seniors aged 65+
Percentage of seniors with equivalised household income before taxes below 35% of the average wage (2011)

Above age 65 (no income)	100%
Basic OAS Income (universal Pillar 1)	100%
+ C/QPP Income - before CPP expansion (Pillar 2)	60%
+ Private Pension Income (Pillar 3)	35%
+ Investment Income	31%
+ Work Income	27%
+ Other Income	25%
+ GIS – before top-up for singles (Income-tested Pillar 1)	13%



Canada Pension Plan is jointly administered by eleven governments

- ▶ Canada Pension Plan is jointly governed by federal, provincial and territorial ministers of finance
 - ▶ All changes to the Plan require agreement of two-thirds of provinces covering at least two-thirds of the population
 - ▶ Québec participates in decision-making regarding changes to the CPP
- ▶ Québec Pension Plan is governed by the Government of Québec



1997 CPP changes strengthened governance framework

- ▶ FTP finance ministers review CPP every three years
 - ▶ Actuarial reports prepared by the OCA are one of the main sources of information for these reviews
 - ▶ The actuarial reports are tabled in Parliament
 - ▶ The actuarial reports are reviewed by an independent external review panel and results of this review are publicly available
- ▶ At the end of the triennial review, ministers must make recommendations whether benefits and/or contribution rate should be changed, taking into account results of most recent actuarial report
 - ▶ The results of the review are shared with Canadians.



Self-adjustment provisions of CPP serve as a safety net in case of political impasse

“Insufficient Rates” Provisions

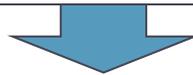
If the legislated contribution rate is lower than the minimum contribution rate

AND

if the federal and provincial finance ministers cannot reach an agreement

THEN

insufficient rates provisions apply



- Contribution rate increased by $\frac{1}{2}$ of excess over three years
 - Benefits frozen until next review (3 years)
- At end of three years, next review performed to determine financial status of Plan.



Self-adjustment provisions of QPP touch only contribution rate

- ▶ From 2018, if steady-state contribution rate exceeds the legislated rate by at least 0.1%, then
 - ▶ the contribution rate for the year is equal to the contribution rate for the previous year plus 0.1%
- ▶ The Québec Government may decide that the rate of contribution remain the same as the rate for the preceding year.



External peer review of CPP Actuarial Reports enhance independence of the Chief Actuary

- ▶ Seven independent peer reviews up to date
- ▶ The independent panel of actuaries is selected by Government Actuary's Department (GAD) from UK
- ▶ Terms of Reference, panel's report and GAD's opinion are public and posted at OSFI website
- ▶ Each review provides a set of recommendations.



TORs of independent peer review address main factors that ensure high quality of actuarial work

- ▶ Is the professional experience of the Chief Actuary and his staff who worked on the report adequate for carrying out the work required?
- ▶ Has the work been completed in compliance with the relevant professional standards of practice and statutory requirements?
- ▶ Did the Chief Actuary have access to the information required to perform the valuation, and were relevant tests and analysis on the data completed as might be expected?
- ▶ Were the actuarial methods and assumptions used in completing the report reasonable?
- ▶ Does the 27th Report fairly communicate the results of the work performed by the Chief Actuary and his staff?

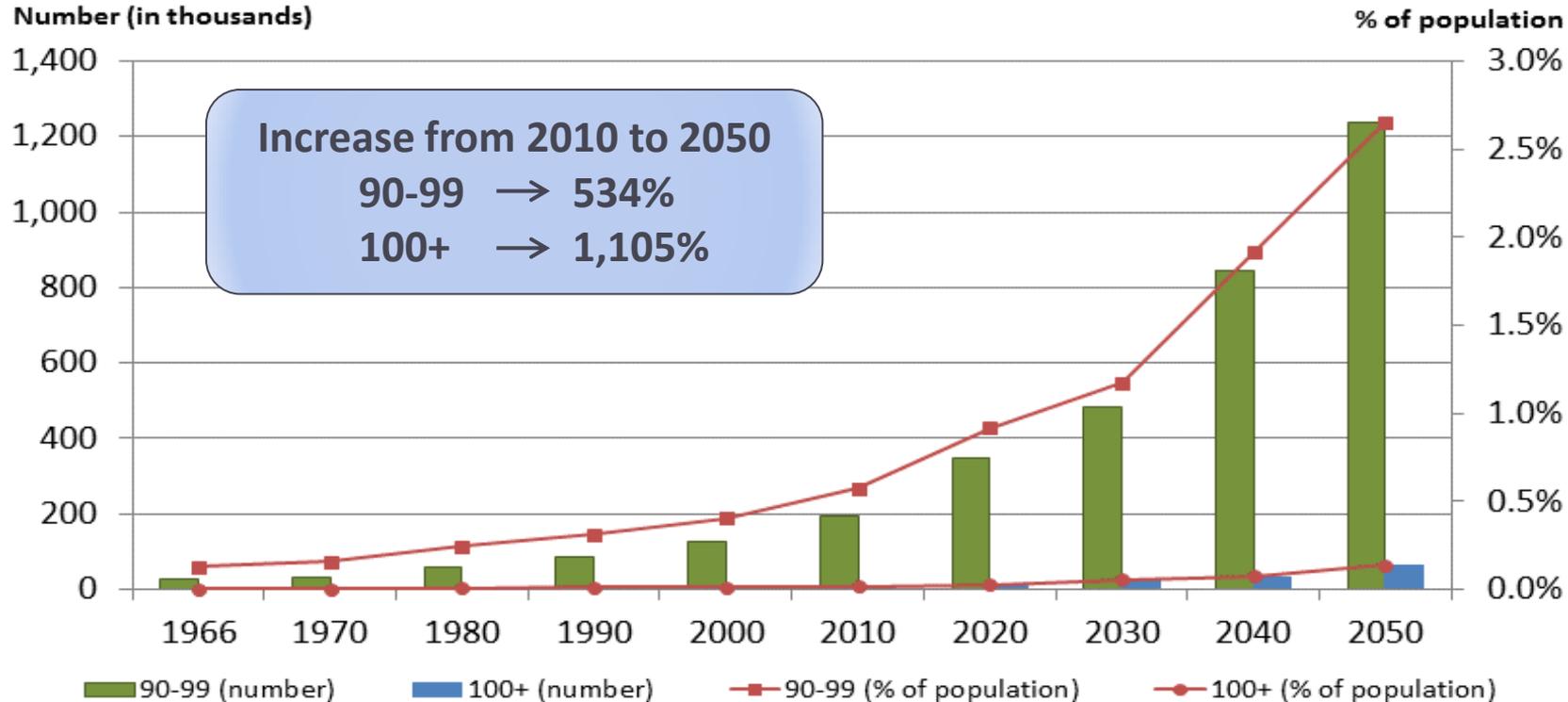


Findings of the external peer review panel on the 27th CPP Actuarial Report CPP as at 31 December 2015

- ▶ The external peer review panel selected by GAD conducted the review of the report
 - ▶ Unanimously confirm that the work performed by the OCA meets all professional standards of practice and statutory requirements, except that the forthcoming actuarial study on the derivation of the actuarial adjustment factors should have been published at the same time as AR27
 - ▶ The study was released on April 27, 2017. The delay was caused by the increased work load due to the introduction of the CPP Enhancement
 - ▶ The panel has complimented the Chief Actuary and his staff on their competence, commitment and professionalism
 - ▶ The peer reviewers have offered eleven recommendations to enhance future actuarial reports.
- ▶ GAD issued the opinion on peer reviewers work
 - ▶ the opinions of the peer reviewers adequately cover all the main issues.



Challenge: the number of people aged 90 and over increases dramatically



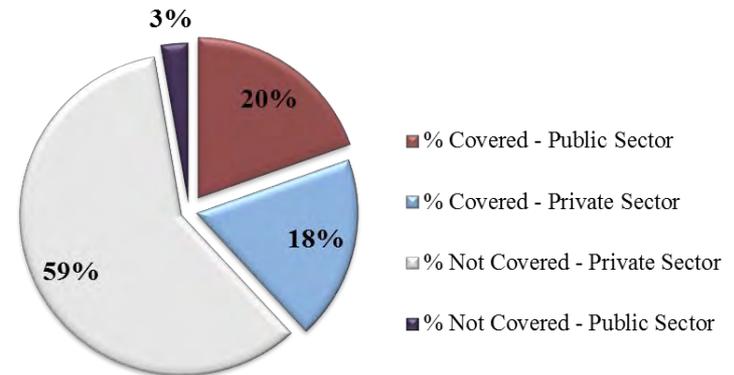
Source for projections: 27th CPP Actuarial Report



Challenge: coverage

- ▶ Decline in coverage by employer-sponsored pension plans (especially in private sector)
- ▶ Changing labour market – increased employment mobility
- ▶ 2008-2009 financial crisis
- ▶ **One in four families approaching retirement—1.1 million families—are at risk of not saving enough**

Distribution of Employees in 2014 -
By Sector and RPP Coverage



THANK YOU

