Canada Pension Plan Actuarial Report and its Independent Peer Review Process

Presentation to the Conference Board of Canada 2005 Pensions Summit: New Thinking, New Strategies

4 April 2005
Presentation

• Purpose of the CPP Actuarial Report
• Demographic and Economic Assumptions
• Steady-State Funding
• Peer Review Process and Strengthening the Accountability

Securing the Canada Pension Plan
Purpose of the CPP Actuarial Report

• Inform on the current and projected financial status of the Canada Pension Plan

• Calculate the steady-state contribution rate
Consultations on Assumptions

• CPP and QPP seminars were organized to get opinions from a wide range of experts in the fields of demography, economics and investments.

• Federal and provincial officials attended these seminars.
Demographic Assumptions

• Fertility  
  (Number of births)

• Migration

• Mortality  
  (Life expectancy)

Sources: Statistics Canada (population census and historical data), U.N. 2002 population projections, CPP seminars
Fertility Rate

(Children per woman)

1952-1976: 3.1

1977-2001: 1.6

Assumption CPP Report
1.60 in 2016+
Net Migration Rate

Avg 1979-2003: 0.49%
Avg 1989-2003: 0.58%

Assumption CPP report:
0.50% 2004 to 2015
0.54% 2020 +
More contributors are expected to reach the retirement age of 65. Retirement beneficiaries are expected to receive their benefit for a longer period.
Population 65+

Increase of 168% From 2000 to 2050

Number (% of population)

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After 2025, almost all projected population increase will come from migration.
Economic Assumptions

- Participation rates
- Employment increase (Job creation rate)
- Unemployment rate
- Inflation rate
- Increase of average employment earnings
- Interest rate and rate of return by asset class

Sources: Historical trends, Recent experience, PEAP from U of T., Department of Finance estimates, Conference Board, Report on Canadian Economic Statistics by CIA, CPPIB, Watson Wyatt Economic Expectations Survey, CPP seminars
Participation Rates 15-69 (Canada)

Assumption CPP Report: 73.4% in 2030

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Job Creation Rate (15+, Canada)

- 2.2% in 2003
- 2004-2010 ≈ 1.0%
- Ultimate ≈ 0.3%

Job Creation Rate
5-Year Moving Average
Annual Increase in Consumer Price Index

Average 71-80: 8.0%

Average 61-70: 2.7%

Average 81-90: 5.9%

Average 91-00: 2.0%

Assumption CPP Report
2.0% in 2004-2008 increasing to 2.7% in 2015 +
Annual Increase in Real Wages

Avg 1979-2003: 0.0%
Avg 1954-2003: 1.2%

Assumption CPP Report: 1.2% (2012+)

CPP Report
Conference Board
U of T
Increase of Real Total Earnings

- 2003-2015: 1.7%
  - Workers: 0.9%
  - Wages: 0.8%

- 2015-2025: 1.5%
  - Workers: 0.3%
  - Wages: 1.2%

- 2025-2050: 1.5%
  - Workers: 0.3%
  - Wages: 1.2%
Asset Mix and Real Rate of Return

- Expected asset mix of CPP Investment Board by 2006
  - 65% Variable Income Securities
  - 35% Fixed Income Securities
- Expected asset mix by 2025
  - 55% Variable Income Securities
  - 45% Fixed Income Securities

*Average Real Rate of Return: 4.1% (2011+)*
CPP Steady-State Funding

Effect of the 1998 Amendments

• Increase the contribution rate by 65% over 6 years (1997-2003) and keep the same rate thereafter

• Moderate the future growth of benefits by 10% on a long-term basis (in 2050).

• Creation of the CPP Investment Board (www.cppib.ca)
CPP Steady-State Funding

Asset/Expenditure Ratio

9.9% Legislated contribution rate

9.8% Steady-state rate

In 2020, CPP/QPP assets are projected to be equal to 17% of the GDP.
• The current legislated contribution rate is 9.9%.

• The steady-state contribution rate is 9.8%.

• If the legislated contribution rate is higher than the steady-state rate, the funding status of the plan will increase over time.

• The higher this rate is set above the steady-state rate, the faster the plan will become more funded.
CPP Steady-State Funding

• If the steady-state rate is higher than the legislated contribution rate AND if finance ministers cannot reach agreement on a solution, then:
  
  – Contribution rate increased by $\frac{1}{2}$ of excess over three years, subject to maximum increase of 0.2% per year
  – Benefits frozen
  – At end of three years, next review performed to determine financial status of Plan.
Peer Review Process

• The past independent Panel confirmed:
  – actuarial standards of practice were met;
  – assumptions were reasonable;
  – the report fairly communicates the result;
  – actuarial conclusions reached by the Chief Actuary about the soundness of the CPP.

• and made a series of recommendations that we acted upon.

March 2002
Peer Review Process

2005 Peer Review

– Auditor General and Selection Process of Independent Panel
– Overseeing of the Peer Review by GAD
– Terms of Reference
Peer Review Process

Terms of Reference of 2005 Peer Review

– Is the professional **experience** of the Chief Actuary and his staff adequate for carrying out the work required?
– Has the work complied with professional **standards of practice** and statutory requirements?
– Did the Chief Actuary have access to the **information** required?
– Were the actuarial **methods and assumptions** used reasonable?
– Does the actuarial report fairly **communicate** the results?
Strengthening the Accountability

- Federal and provincial governments took meaningful steps to strengthen the transparency and accountability of actuarial reporting. They endorsed:

  - an increase in the frequency of actuarial reporting from every five years to every three years.
  - regular consultations by the Chief Actuary with experts on assumptions to be used in actuarial reports;
  - regular peer reviews of future actuarial reports on the CPP.