The Canadian Response
to the Evolution of the
Retirement Security Net

Presentation to the Northwind Professional Institute
Langdon Hall, Cambridge

27 October 2005
• Mandate of the Office of the Chief Actuary
• Canadian Income Retirement System
• Canadian and Global Aging
• CPP Steady-state Funding
• Framework of an Efficient Retirement System
Canadian Retirement Security

Canadian retirement system with mixed funding approaches is well recognized in the world for its capacity to adapt rapidly to changing conditions.

- Full funding (RPP/RRSP)
- Partial funding (CPP/QPP)
- Pay-as-you-go funding (OAS/GIS)

The Canadian retirement system could be viewed as about 40% to 45% funded.
Income Replacement Rate of Public Pension Plans (Canada and United States, 2002)
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
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 +
Life expectancy at 65

Difference

More contributors are expected to reach the retirement age of 65.
Retirement beneficiaries are expected to receive their benefit for a longer period.
Canadian Aging

Population 65 and over (in millions)

Increase of 150% From 2005 to 2050

Increase of 250% for 80+

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Global Aging

Projected number of years needed to go from 12% to 24% of 65 and over as a % the total population

<table>
<thead>
<tr>
<th>Year (1960-2040)</th>
<th>Japan (25 years)</th>
<th>Canada (30 years)</th>
<th>Germany (60 years)</th>
<th>France (65 years)</th>
<th>Australia (65 years)</th>
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Future Labour Shortage, likely or not?

Ratio of 60-64 over 20-24

For every 6 who leave, 10 enter

More people leaving than entering after 2015

Working Age Population (ages 20-60) (indexed 2000=100)

Source: UN World Population Prospects
How do we position for the aging of the Canadian population? : 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 to diversify the CPP reserve fund and increase investment returns (www.cppib.ca)
In 2020, CPP/QPP assets are projected to be equal to 17% of the GDP.
CPP Steady-State Funding

• 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 ½ 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.
Between 2010 and 2030, the ratio of expenditures to GDP increases from 2.4% to 3.2%, driven largely by the retirement of the babyboomers.

$28 billion in 2004; $37 billion in 2010; $110 billion in 2030
Framework of an Efficient Retirement System

- Diversification of sources of retirement income
- Diversification of funding approaches
- Reasonable economic cost of public pensions (% of GDP)
- Reduction of poverty among seniors
- Reduction of income inequalities
- Maintenance of standard of living at retirement