Changing Signals in Social Insurance and Beyond?

Defining the Characteristics of the 21st Century Retirement System
Washington, DC, 17-18 November 2008
CPP Early Retirement Provision

- Normal retirement age is 65; however, provisions allow for a reduced pension as early as age 60 or an increased pension beyond age 65
- Retirement pensions permanently adjusted downwards or upwards by 0.5% for each month between age 65 and the age when the pension commences (up to age 70)
- A 2003 study found that the actuarial adjustment factors are too generous for early retirees, while those who delay retirement after age 65 are penalized
CPP Early Retirement Provision

- CPP is financially sustainable even though actuarial adjustment factors are not cost neutral
- Early retirement incentive signals that age 60 or shortly thereafter is an acceptable retirement age
- Should this signal be changed?
- In future, restoring cost neutrality to actuarial adjustment factors will create manoeuvring room that would absorb some of the possible unforeseen fluctuations without increasing the contribution rate
What Could Finance Ministers Do if the Minimum Contribution Rate Exceeds the Legislated Contribution Rate?

- Reach an agreement that restores financial sustainability:
  - Increase the contribution rate
  - Change benefits
  - Change the contribution rate and benefits
- Reach an agreement that fails to restore financial sustainability
  - Insufficient increase in contribution rate
  - Insufficient changes in benefits
  - Insufficient changes in contribution rate and benefits
- Reach no agreement
If the ministers fail to reach an agreement, the following default provisions are applied

- Contribution rate increased over a period of up to three years by \( \frac{1}{2} \) (steady-state rate – 9.9%), subject to maximum increase of 0.2% per year, plus entire full-funding rate
- Benefits frozen for three years
- At the end of three years, the next review is performed to determine the Plan’s financial status
- The purpose is to share the increased cost between an increase to the contribution rate and a freezing of benefits
  - The cost is not necessarily shared equally
Balancing Mechanisms

- Used in Germany, Japan, Sweden and Canada
- Can be applied automatically or not
  - Canada: not automatic
  - Sweden: automatic
- Canada: stakeholders are able to restore financial sustainability with a solution that may be better than the legislated balancing mechanism
- For example, restore cost neutrality to actuarial adjustment factors
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Thank you