

CANADA'S PENSION SYSTEM

Presentation to the
Inter-America
Development Bank

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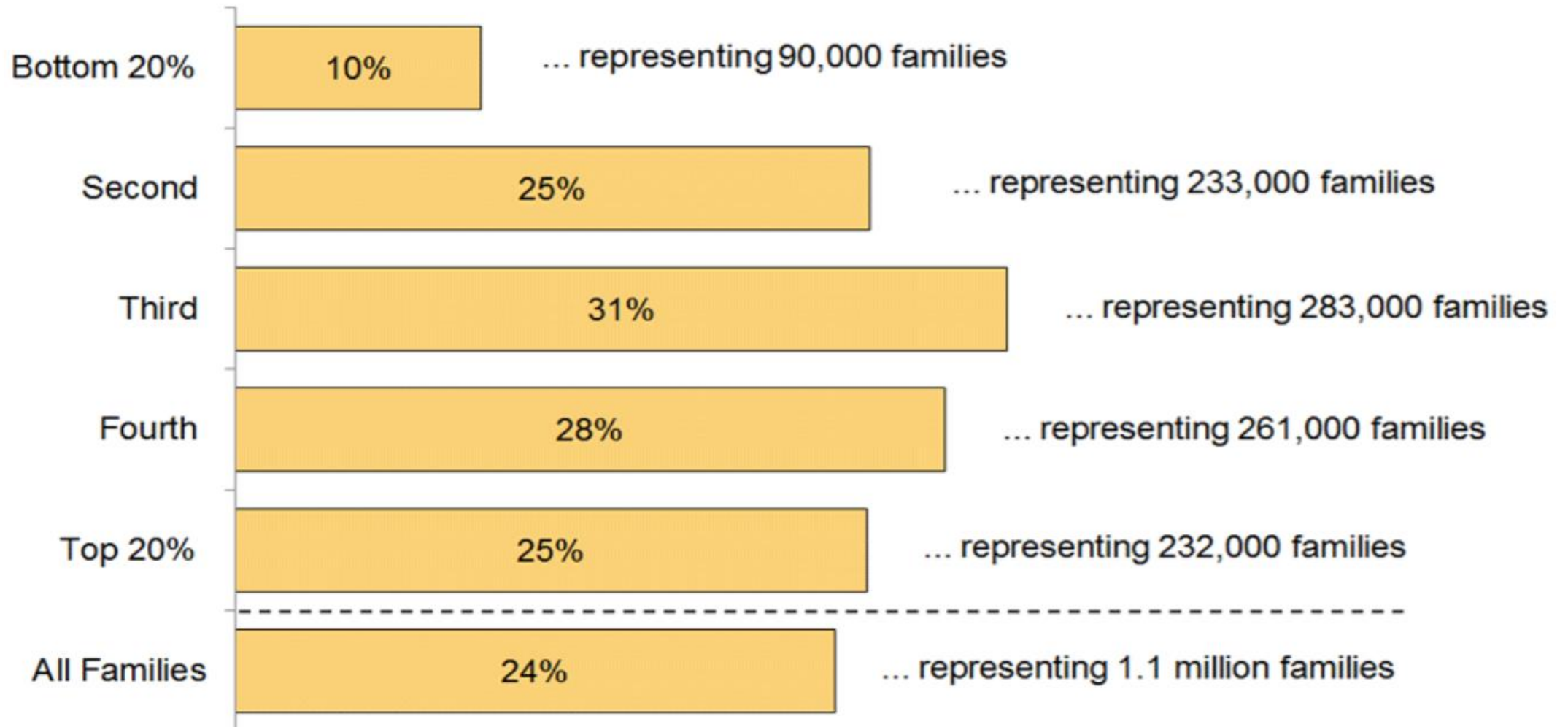
October 8, 2020



Overview

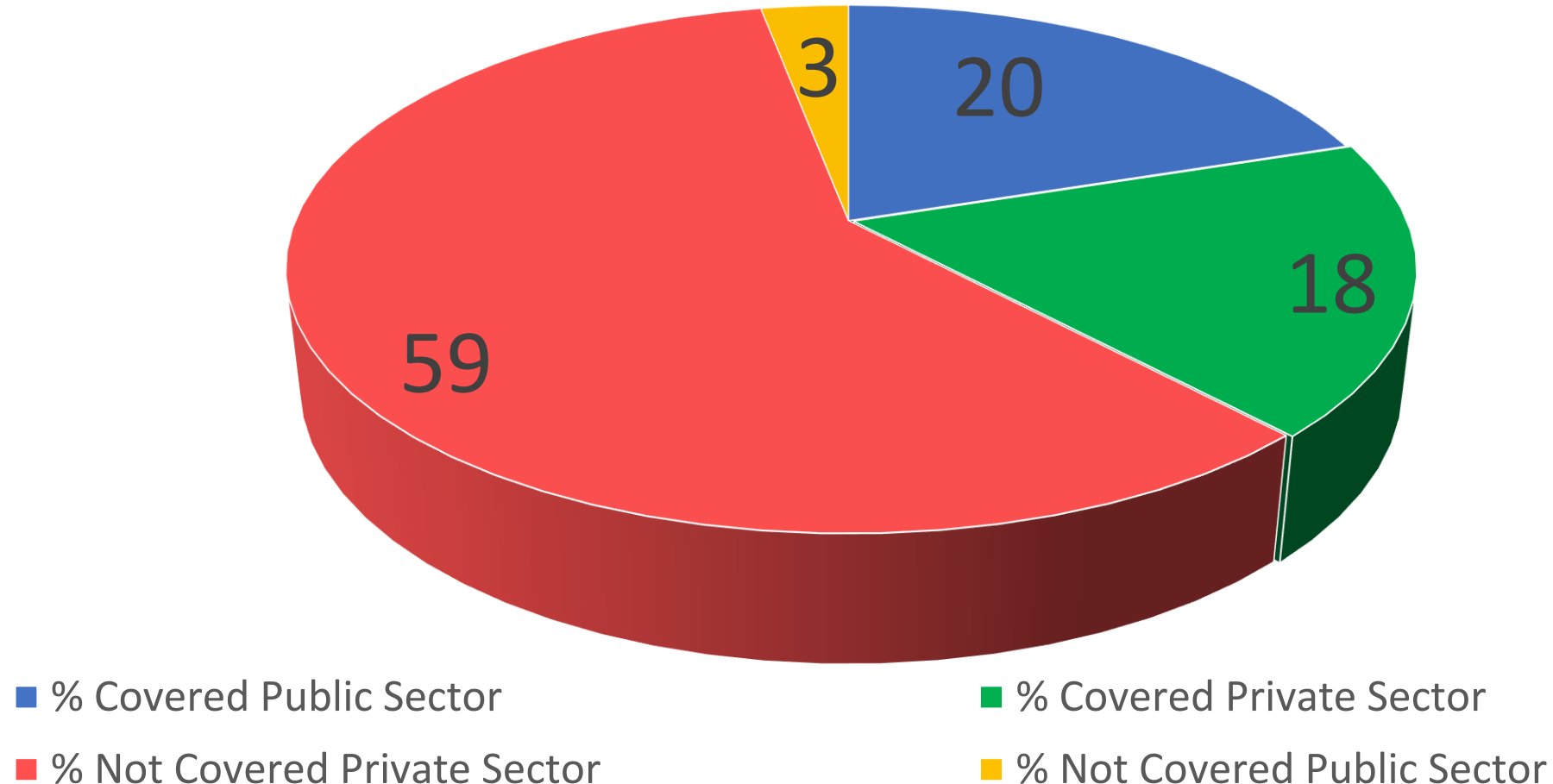
- Do People Have Enough for Retirement?
- Changing demographics and Longevity
- Canada's retirement system
 - ✓ Canada's Pension Plan
 - ✓ Old Age Security
 - ✓ Employer Sponsored Pension Plans/Private Savings
- Canada's International Performance

Share and Number of Families Near Retirement That May Not Be Saving Enough to Replace 60% of Their After-tax Income

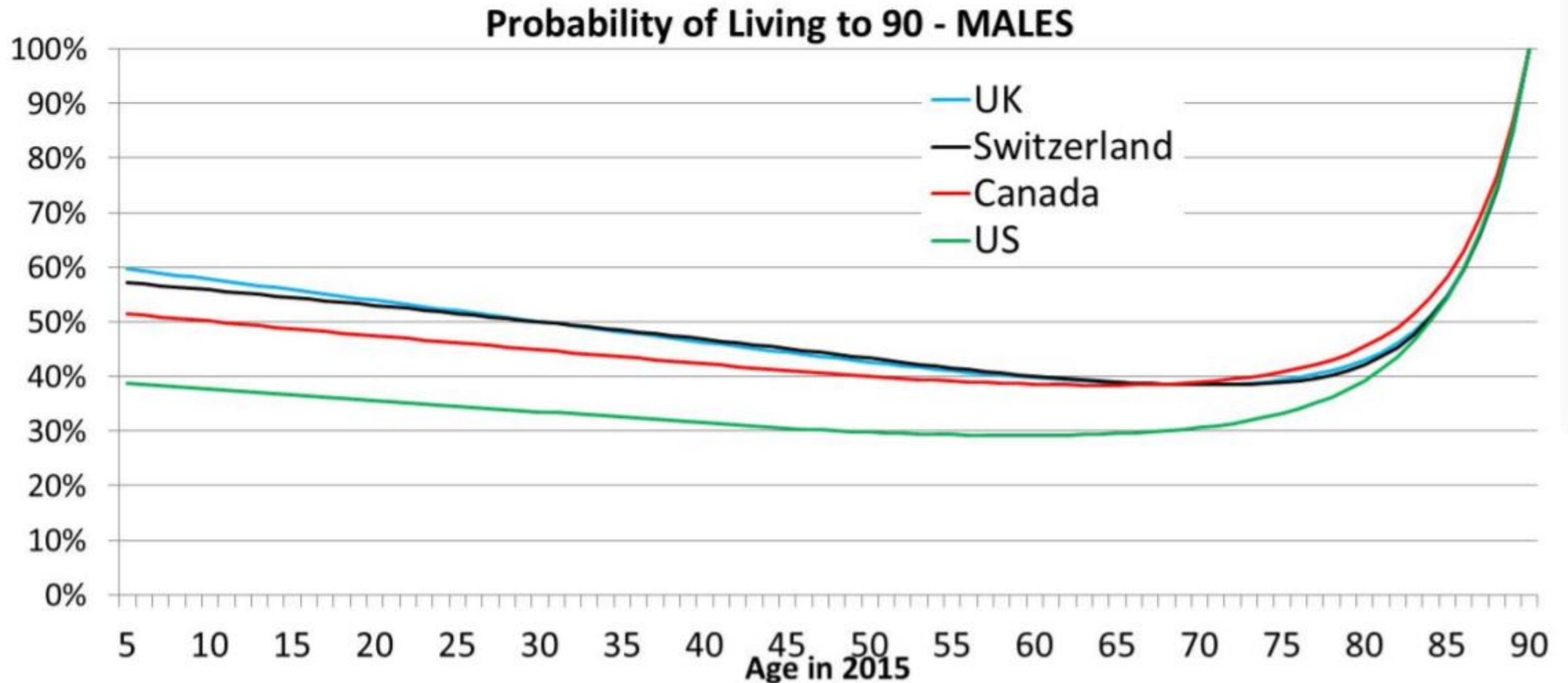


Employer-Sponsored Pension Plans Coverage

% of Employees with A Registered Pension Plan, 2016



Nearly half of Canadian men aged 20 today are expected to live to age 90 (58% of women)



Source: UK Office for National Statistics, Confédération Suisse – Office fédéral de la statistique, 27th CPP Actuarial Report, 2015 OASDI Trustees Report

Canada's retirement income system

“Three pillars” of Canada's retirement income system

- the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP)
- the Old Age Security (OAS)
- employer-sponsored pension plans and personal savings and investments

Canada Pension Plan (CPP)

CPP is a monthly, taxable benefit that replaces part of your income when you retire and is paid for the rest of your life. To qualify you must:

- be at least 60 years old
- have made at least one valid contribution to the CPP

Valid contributions can be either from work you did in Canada, or as the result of receiving credits from a former spouse or former common-law partner at the end of the relationship.

Canada Pension Plan is Managed Jointly by 11 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

CPP'S Self-adjustment provisions 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 to increase or maintain the legislated rate

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.

Additional CPP Sustainability Provisions If Further Action is Required and No Agreement Can Be Reached

- Adjusting benefits of current beneficiaries
 - Modify indexation of benefits in pay for a specified period (6+ years)
 - Limits on indexation adjustment: 60% - 200% of CPI
 - Benefits are not reduced from one year to the next
- Adjusting benefits of future beneficiaries (current contributors)
 - Multiplying starting amount by “benefit multiplier” (depends on the year of uptake)
 - Benefit multiplier is aligned with the value of extra/forgone indexation
- Increasing additional contribution rates – last resort in the case of deficit



Canada's Old Age Security (OAS)

The Old Age Security (OAS) pension is a monthly payment you can get if you are 65 and older

You can receive up to \$613.53 per month (July to September 2020 maximum monthly payment)

The amount you receive depends on how long you lived in Canada or [specific countries](#) after the age of 18

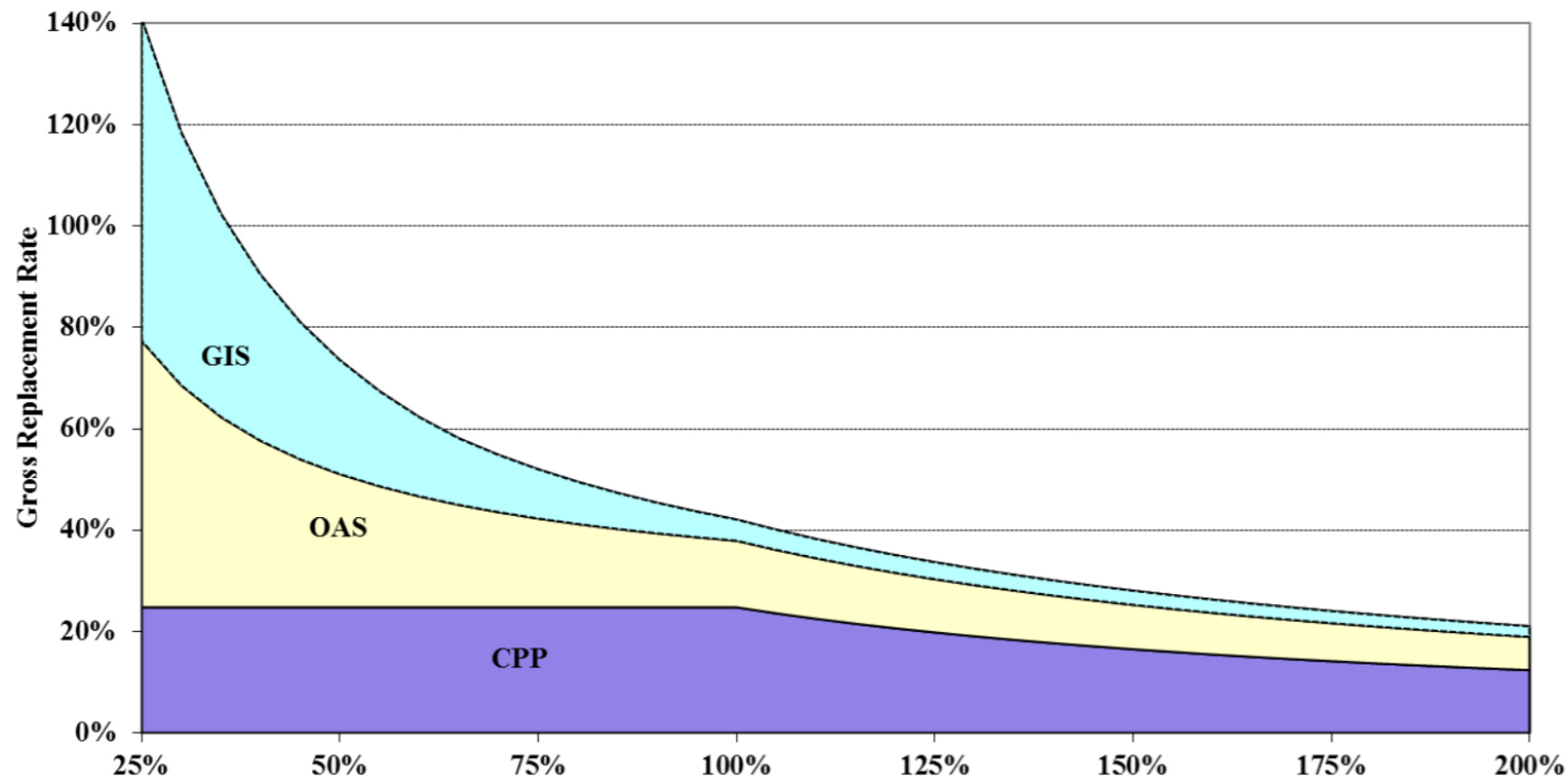
You will have to pay tax on the Old Age Security pension payment.

Guaranteed Income Supplement

You may also be eligible for the [Guaranteed Income Supplement](#) if:

- you are 65 or older
- you live in Canada
- you get the Old Age Security pension
- your income is below:
 - \$18,600 if you are single, widowed or divorced
 - GIS is reduced if your income plus the income of your spouse/common-law partner exceeds certain thresholds

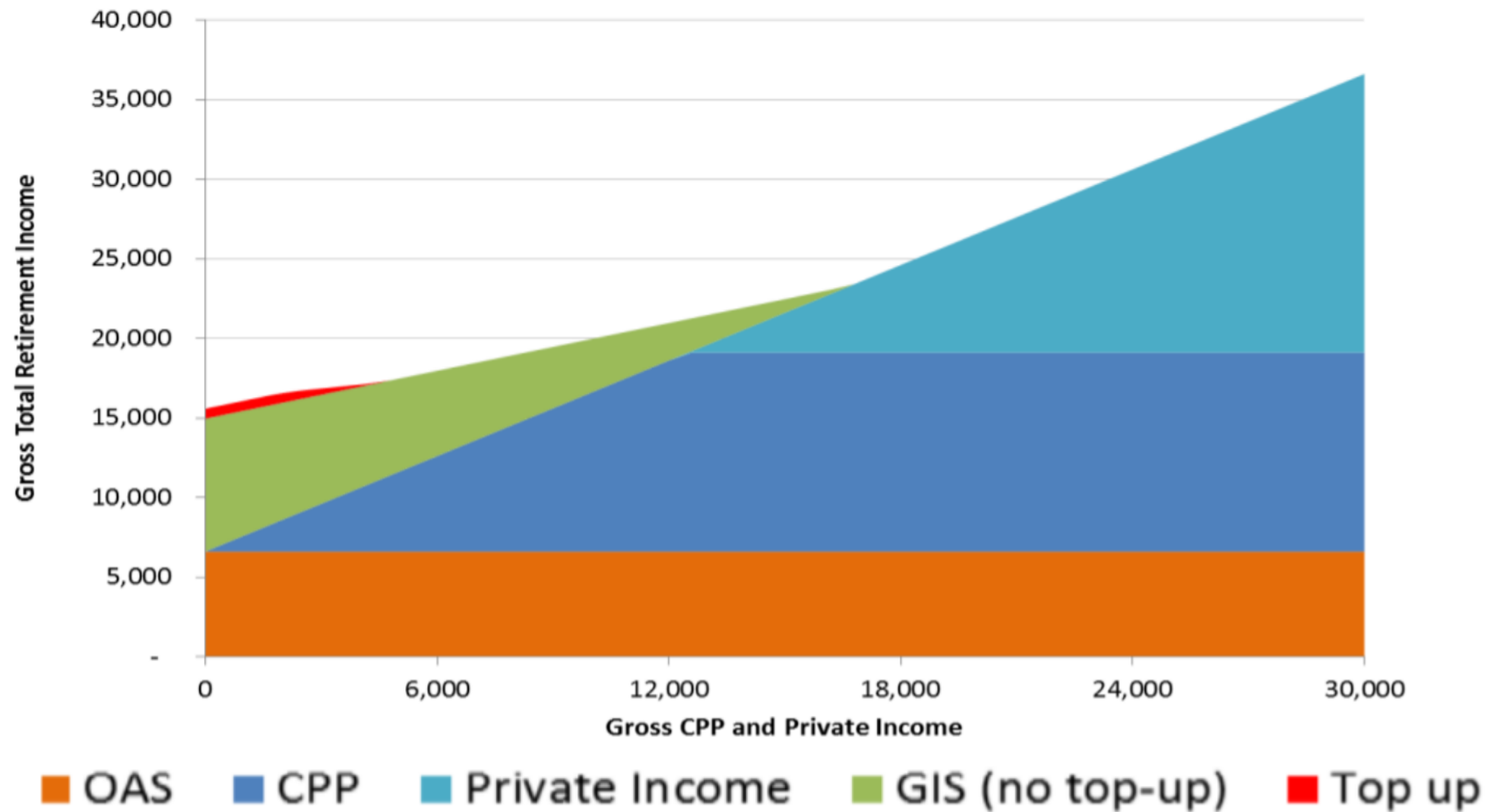
Gross Replacement Rates from Public Pension and Income Security (Old Age Security and Canada Pension Plan) in 2018



Pre-Retirement Adjusted Career Average Earnings as a % of Year Maximum Pensionable Earnings

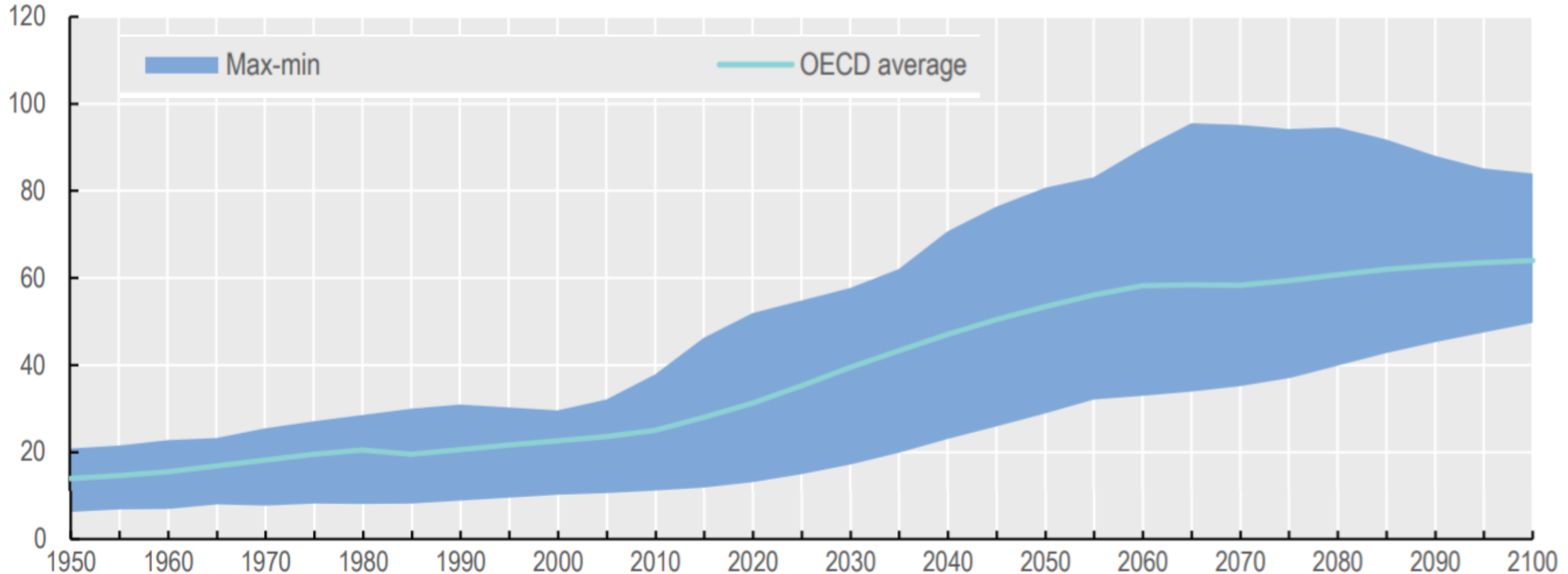
Office of the Superintendent of Financial Institutions Canada, Multi-Pillar Pension Systems: Lessons from Canada and Internationally, 2019, <https://www.osfi-bsif.gc.ca/Eng/Docs/ab20190206.pdf>

Gross CPP and Private Income and Total Retirement Income



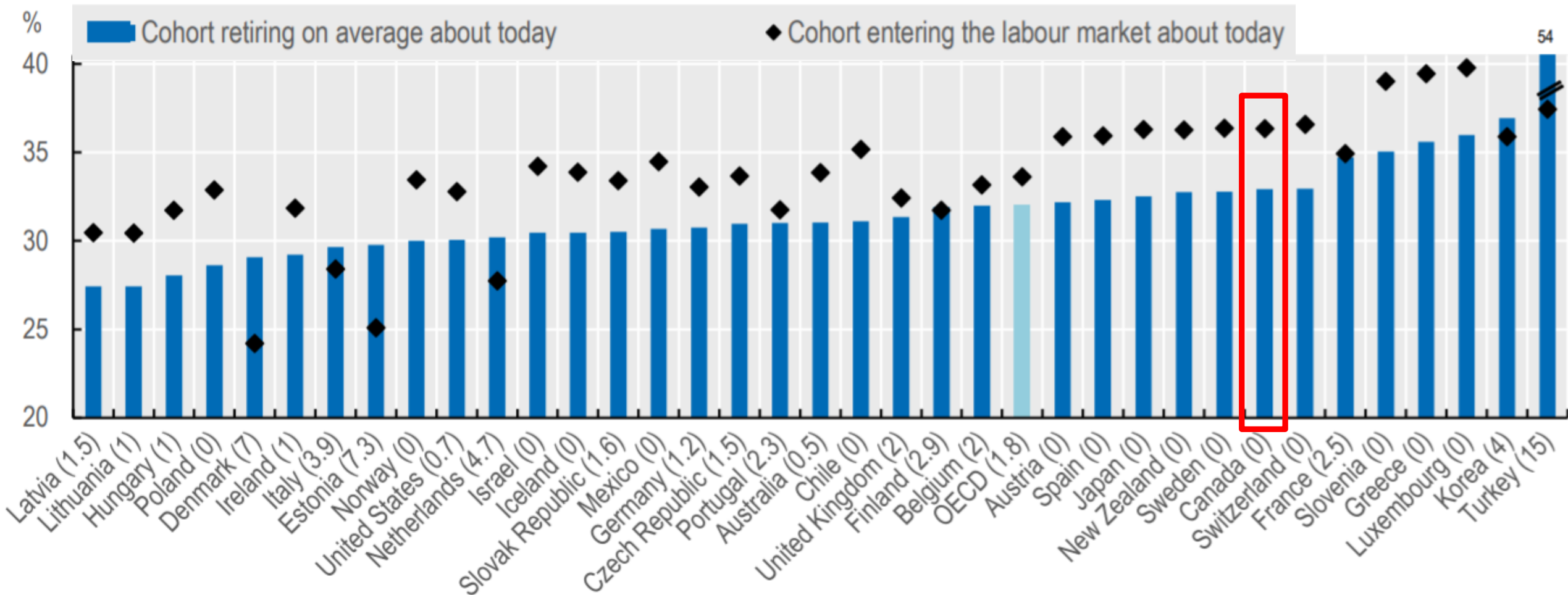
Office of the Superintendent of Financial Institutions Canada, Multi-Pillar Pension Systems: Lessons from Canada and Internationally, 2019, <https://www.osfi-bsif.gc.ca/Eng/Docs/ab20190206.pdf>

The rise in the old-age to working-age ratio is accelerating



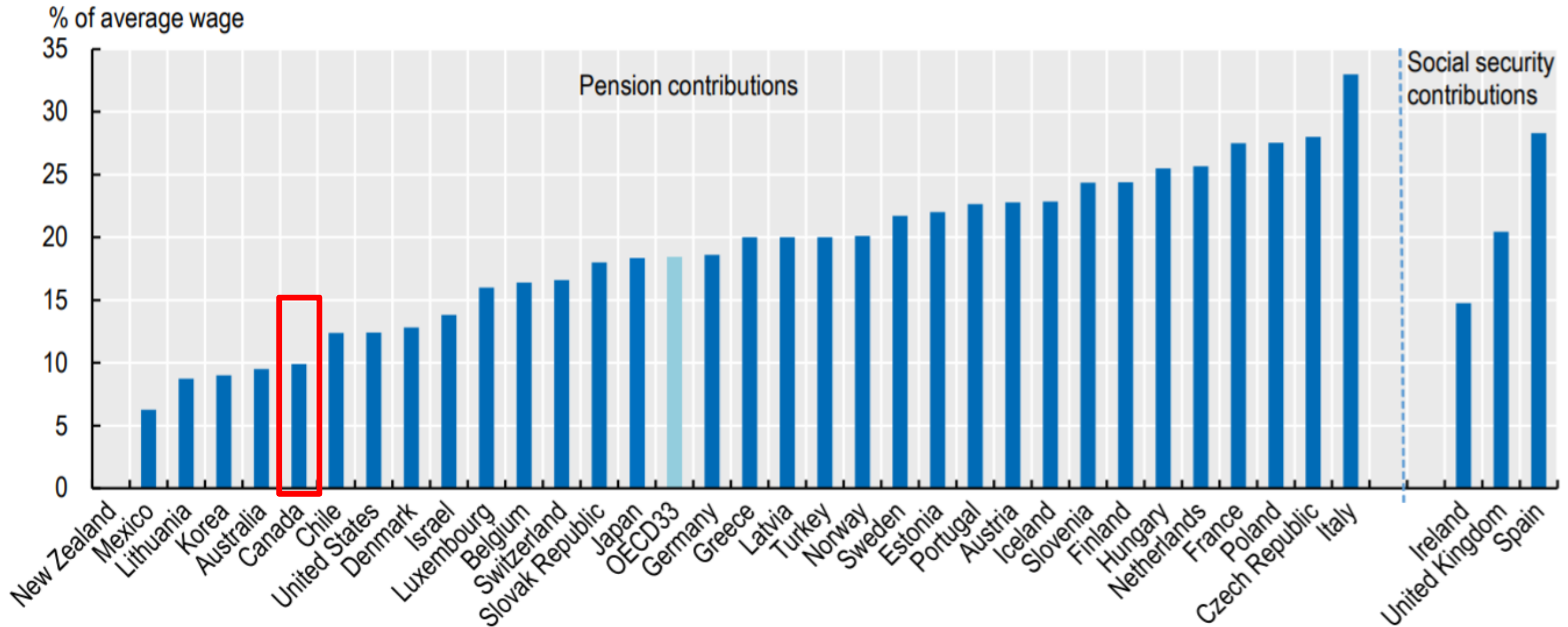
Source: OECD: Pensions at a Glance 2019 OECD AND G20 INDICATORS, [Link](#)

Length of the retirement period as a share of adult lifetime



Source: OECD: Pensions at a Glance 2019 OECD AND G20 INDICATORS, [Link](#)

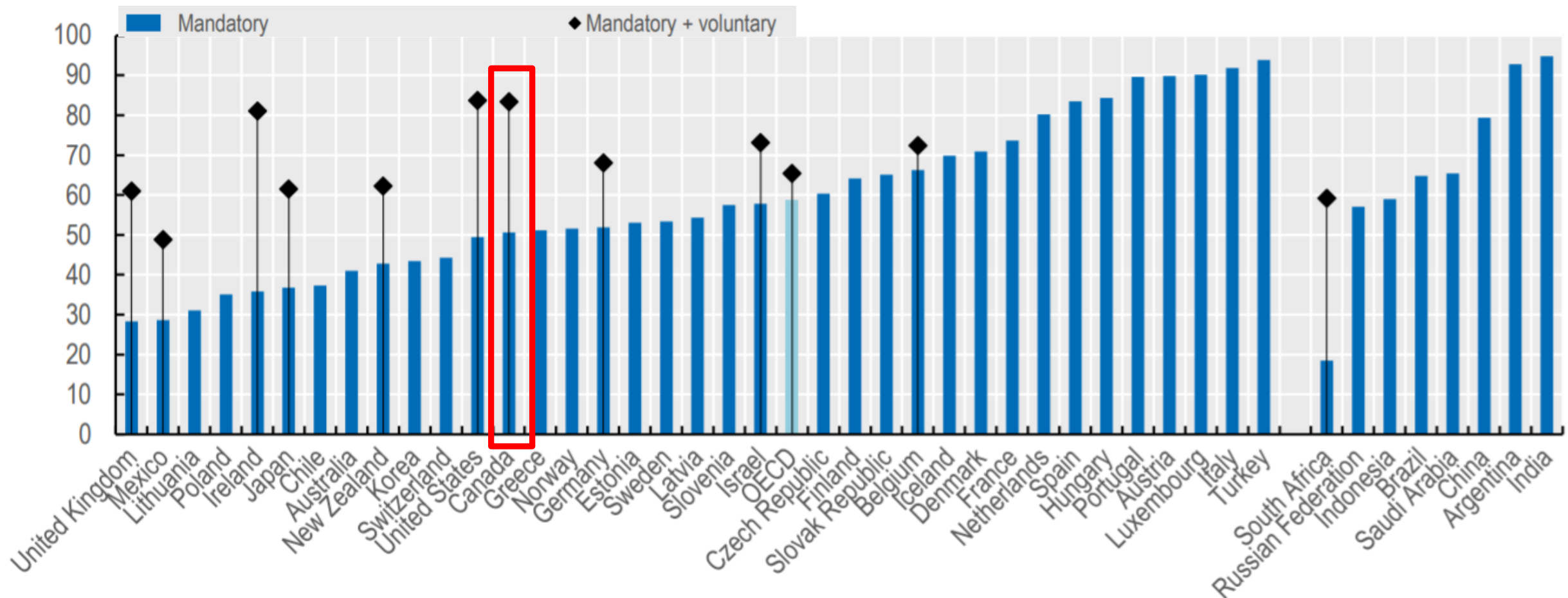
Pension contribution rates differ widely among countries



Note: Total effective mandatory and quasi-mandatory pension contribution rates for dependent workers, at the average wage, 2018

Source: OECD: Pensions at a Glance 2019 OECD AND G20 INDICATORS, [Link](#)

Future net replacement rates for full-career average-wage workers

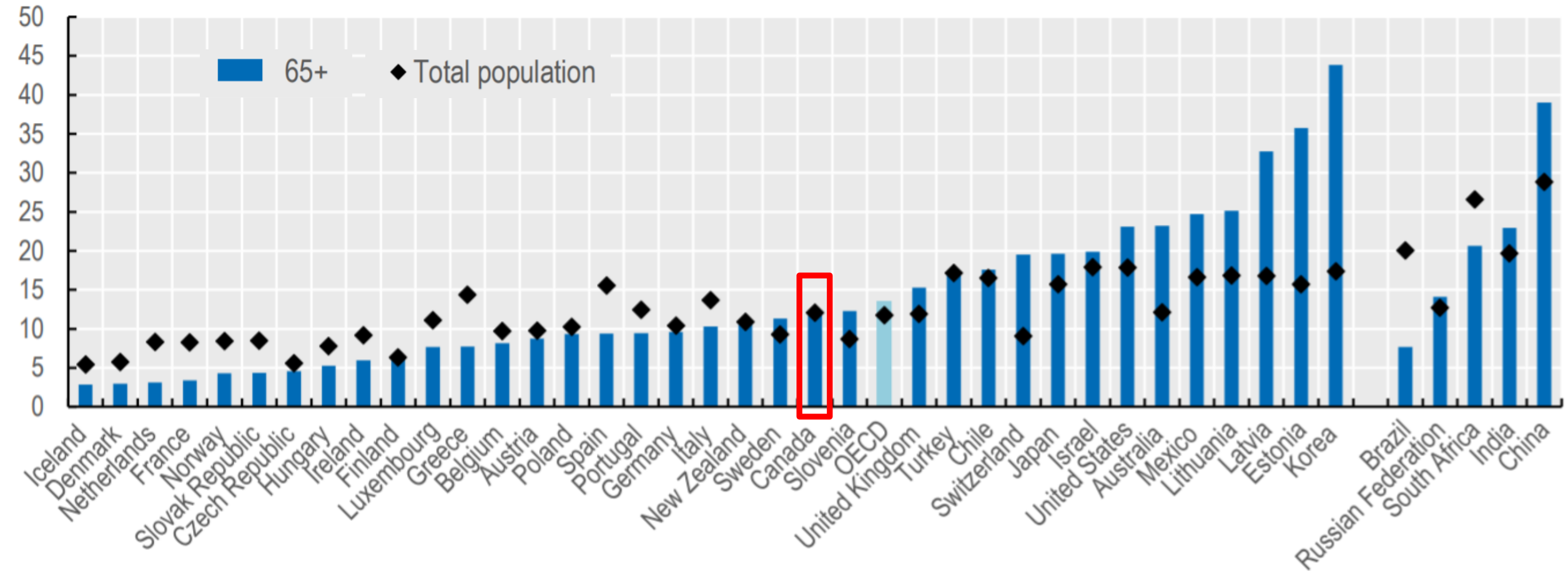


Note: OECD calculations based on the pension model. Pension entitlements are based on current legislation in OECD countries. The values of all pension system parameters reflect the situation in 2018 and onwards. The calculations show the pension benefits of a worker who enters the system that year at age 22 and retires after a full career. The baseline results are shown for single individuals.

Source: OECD: Pensions at a Glance 2019 OECD AND G20 INDICATORS, [Link](#)

Poverty rates among older age groups and the total population

Relative poverty rates, %, 2016



Note: Relative poverty is defined as an income below half the national median equivalised household income.

Source: OECD: Pensions at a Glance 2019 OECD AND G20 INDICATORS, [Link](#)



Discussion