

Tripartite Round Table on Pension Trends and Reforms
Employment and Social Development Canada (ESDC) Overall Assessment of the Pension System

1. (a) Based on your assessment of the pension system in your country, what are the core principles in ILO standards that you believe the pension system fully or mostly achieves?

Principle 1, Progressive realization of universal coverage (rating: 4): Canada's retirement income system (RIS) consists of three pillars, the residence-based Old Age Security (OAS) program, the contributory Canada Pension Plan (CPP), and workplace pension plans and private savings. Most retired persons in Canada receive part of their income from at least the two public pillars. An estimated 94% of all Canadian seniors receive the OAS pension. Conversely, the CPP (and the Québec Pension Plan (QPP) in the province of Québec) cover virtually all employed and self-employed workers, in all industries. Moreover, the Government of Canada has undertaken initiatives to increase take-up of public pensions, such as the introduction of automatic enrolment. The vast majority of seniors who are eligible for pension benefits, do receive those benefits. The Government of Canada is involved in the third pillar through various tax incentives, however it has more direct responsibility on the public pensions.

Principle 2, Social solidarity and collective financing (rating: 4): The OAS program is financed through general tax revenues and the amount of the pension is determined by how long the person has resided in Canada. Not linking eligibility with employment history has allowed senior women who had devoted their life to raising children and other caregiving responsibilities to have their own income at retirement. Conversely, the CPP strives for gender neutrality in all of its dimensions, mandating equal contributions, offering the same benefits to women and men and contributions are shared equally between employees and employers. A number of provisions in the CPP protect the value of benefits by allowing certain periods of reduced or no labor force participation to be taken out of the benefit calculation (e.g. periods of disability, child rearing, low or zero earnings).

Principle 3, Right to adequate and predictable benefits (rating: 4): Canada's RIS was designed both to provide adequate income replacement in retirement and reduce poverty amongst seniors. The OAS pension replaces approximately 13% of the national average salary in Canada. Income-tested supplementary benefits can increase the replacement rate for low-income seniors to over 100% of pre-retirement income. In regards to the CPP, it is designed to replace up to 25% of lifetime average wage at retirement (gradually increasing to 33.33% due to the CPP enhancement). Canada's public pensions are by their nature progressive such that they provide the highest level of income replacement for individuals with the lowest incomes. The rate of poverty amongst seniors is lower than that of the general population. Benefits under the OAS program are adjusted quarterly and under the CPP yearly both using the Consumer Price Index (CPI) so that benefits keep up with the cost of living.

Principle 4, Overall and primary responsibility of the State (rating: 5): In Canada, the roles and responsibilities of the federal government are governed by the Constitution, as are the jurisdictions and authorities of the provinces and territories. While most aspects of social security fall within the constitutional authority of the provinces and territories, authority for pensions is shared between the provinces and the federal government. The federal government administers the OAS program and the CPP. The CPP allows provinces to opt out and establish a comparable pension plan of their own. To date, only Québec has availed itself of this provision, creating the QPP. Federal and provincial Finance Ministers are required to review the CPP every three years and decide whether changes to the contribution rate or benefits are required and major changes require consent of at least two-thirds of provinces containing two-thirds of the population.

Principle 5, Non-discrimination, gender equality and responsiveness to special needs (rating: 4): Equality of treatment is ensured under the provisions of the *Old Age Security Act* and the *Canada Pension Plan* and constitutionally guaranteed in the *Canadian Charter of Rights and Freedoms*. The OAS program and the CPP apply to all persons regardless of nationality or gender. Although Canada's public pensions do not generate systemic inequalities, the incidence of poverty among seniors is higher among women living

alone (12.7% for senior women living alone compared with 5.6% for the entire seniors population). While women were under-represented among CPP recipients decades ago, there are now more women than men in receipt of CPP benefits, reflecting the increased work history of new cohorts of senior women.

Principle 6, Financial, fiscal and economic sustainability (rating: 5): Canada's public pensions are financially stable. The OAS program is funded through general government revenues with expenditures representing 2.7% of Gross Domestic Product in 2020 and projected to reach 3.2% in 2030, before declining in the longer-term. The Chief Actuary confirmed that the CPP remains financially sustainable at the current legislated contribution rates (9.9% for the base CPP, 2.0% for the enhancement) for at least the next 75 years.

Principle 7, Transparent management and administration (rating: 5): In accordance with the *Access to Information Act* and Open Government initiative, the Government of Canada proactively publishes and provides access to information to Canadians. The *Public Pensions Reporting Act* also requires the Chief Actuary to publish a triennial actuarial report on benefits under the *Old Age Security Act* and conduct an actuarial review when an amendment is made that affects the cost of benefits. The CPP publishes exhaustive annual reports, completed with consolidated financial statements, audited by the Auditor General of Canada. In addition, the arms-length firm responsible for investing surplus CPP fund (CPP Investments) publishes quarterly performance reports as well as annual results. Every two years, CPP Investments holds public meetings to inform Canadians about the Fund's financial performance and the investment strategy.

Principle 9, Periodic review of pensions to match the evolution of the cost of living and level of earnings (rating: 4): Benefits under the OAS program are adjusted four times per year, and under the CPP once a year, so that benefits keep up with the inflation rate as measured by the CPI.

(b) What are the core principles in ILO standards that you believe the pension system does not achieve or only partially achieves?

Principle 8, Involvement of social partners and consultations with other stakeholders (rating: 3): ESDC engages with provincial and territorial government officials following amendments to the *Old Age Security Act* and *Canada Pension Plan*. Consultation with trade unions, interest groups and individuals is however limited. These groups are provided the opportunity to voice their concerns to parliamentarians regarding any substantial changes to the OAS program or CPP during the legislative approval process.

2. What is your overall assessment of your country's pension system?

Canada's public pensions play a significant role in providing income security to Canadians in their senior years and have played a major role in reducing poverty among seniors. The incidence of low income among seniors aged 65 and over was 5.6% in 2018. While the OAS and CPP benefits are not intended to meet all the retirement income needs of seniors, they can provide a modest base upon which individuals can add income from other sources such as employer-sponsored pension plans and private savings, to address their particular financial circumstances.

3. What could be done to strengthen the pension system?

Canada's public pensions replace relatively low levels of working income because the system depends heavily on private savings to generate the retirement income of most Canadians. Over the years, there has been a general erosion of employer-sponsored pension plans and insufficient levels of retirement savings. In addition to enhancing employers' pensions and private savings, measures to strengthen the pension system include ensuring that all seniors have sufficient income to be lifted out of poverty, that all seniors receive the benefits to which they are entitled, and that the interaction of federal, provincial/territorial benefits provided to low-income seniors do not create disincentives to work or save. Strengthening financial literacy to help Canadians make informed decisions about their retirement would also be beneficial.