Tripartite round table on pension trends and reforms

Overall assessment of the pension system

Canada (Employers)

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: 4.5): An estimated 94% of all Canadian seniors receive the OAS pension. The CPP (and the Québec Pension Plan (QPP) in the province of Québec) covers all employed and self-employed workers, in all industries (both legal and effective coverage).

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.

Principle 3, *Right to adequate and predictable benefits* (rating: 4): According to academic studies, 84% of Canadian households were prepared for retirement; The average preparation index is 117 (which means that households would replace 117% of their pre-retirement consumption) with of course a wide variety of situations. Benefits under the OAS and the CPP are adjusted for inflation using the CPI.

Principle 4, *Overall and primary responsibility of the State* (rating: 4): The federal government administers the OAS program and the CPP. (The province of Québec has its own comparable pension plan, the QPP). The pension system in Canada is well diversified and involves also an important private sector pillar.

Principle 5, *Non-discrimination, gender equality and responsiveness to special needs* (rating:4.5): Equality of treatment is ensured under the provisions of the Old Age Security Act and the Canada Pension Plan. The OAS program and the CPP apply to all persons regardless of gender or any other aspect. 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 6, *Financial, fiscal and economic sustainability* (rating: 4.5): 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. High levels of public debt might represent a risk on financial sustainability eventually. With regards to the CPP, the Chief Actuary latest report confirmed that it is financially sustainable at the current legislated contribution rates over the long term (for at least the next 75 years).

Principle 7, *Transparent management and administration* (rating: 5): The Public Pensions Reporting Act 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.

Principle 8, *Involvement of social partners and consultations with other stakeholders* (rating: 3): social partners can voice their concerns to parliamentarians regarding any substantial changes to the

OAS program or CPP during the legislative approval process, (in Quebec, representatives of employers and employees' associations sit on the board of Retraite Quebec).
Principle 9, *Periodic review of pensions to match the evolution of the cost of living and level of earnings* (rating: 5): Benefits under the OAS program are adjusted for inflation four times per year, and under the CPP once a year.

2 Overall assessment of your country's pension system:

Canada's retirement income system is well diversified, with three pillars that work together to provide adequate income replacement in retirement and prevent poverty amongst seniors. Combined with the public and universal nature of the Canadian health system and the high rate of home ownership among the population, the Canadian retirement system succeeds in preventing poverty amongst seniors.

Canada's retirement income system has been recognized as one of the strongest in the world. For example, the Mercer CFA Institute's "Global Pension Index 2020" ranked Canada's system relative to those of 38 other countries. Canada ranked 9th based on its relatively high ratings on the issues of adequacy, sustainability and integrity. In addition, the World Bank's 2017 study, "The Evolution of the Canadian Model", has identified Canada's public pension system as a model for other countries based on several key features.

This does not mean that the status quo is enough; despite the strengths of the Canadian system, there are a number of issues that can and should be addressed in a collaborative manner. Employers are particularly mindful of the need to address Canadians' retirement savings over and above state-supported programs (CPP/QPP, OAS) – i.e. the third pillar of the Canadian system. Studies reveal that over 80% of Canadian households are on track to maintain their standard of living in retirement. Some middle income and self-employed Canadians, however, may not be able to do so due to factors such as inadequate pre-retirement savings and lack of access to employment-based retirement plans. Canadian employers support targeted and balanced pension reforms and initiatives to address specific challenges in the current retirement income system.

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

Recommendations for improving the Canadian retirement income system include the following:

- Develop attractive retirement savings products for those without an employment-based scheme;
- Increase the level of household savings and reduce household debt; and
- Promote labour market participation at older ages to reflect longer life expectancy. Ensure namely that the interaction of benefits and taxation do not create disincentives to work or save (revising for instance the existing GIS clawback. The province of Quebec introduced tax incentives for workers aged 60 years old or more).

Canadian employers do not believe that further mandating employer contributions to retirement savings plans is appropriate or feasible. Instead, the focus should be on developing innovative and collaborative approaches to enhance the retirement savings options for Canadians and to create conditions so that more employers are able to establish plans for their employees. Other potential improvements include:

- Promoting financial education and literacy on the importance of retirement savings and options for doing so;
- Improving outcomes for those in capital accumulation plans (DC plans) by addressing fees, portability, decumulation solutions (risk-pooling, cost-effective solutions) and innovation on protecting for longevity;
- Looking at additional ways to improve the OAS and CPP/QPP programs like allow deferring the commencement of benefits up to age 75 with appropriate increase in pension;
- Harmonizing rules across the country (since each province and the federal jurisdiction has its own regulatory system with significant differences in some cases);
- Creating conditions so that more employers who offer DB plans in the private sector are able to preserve them for their employees (revising funding rules in the low interest rate environment); and
- Putting in place conditions and regulations for innovative pension plans like risk-sharing and target benefit plans.