

# Canada Pension Plan of 1965

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A MAJOR LANDMARK in the development of Canada's social security system was reached in April 1965, when the new Canada Pension Plan was enacted.<sup>1</sup> The law establishes, for the first time, a contributory system of earnings-related old-age, disability, and survivor insurance benefits in Canada. It was assented to on April 3, 1965, and was proclaimed on May 5. The collection of contributions under the new program will commence in January 1966, and retirement benefits will first become payable in January 1967.

The effect of the new legislation is, in general, to superimpose a system of contributory wage-related retirement pensions on top of the existing system of universal flat-rate old-age pensions, which is retained and, in fact, expanded. The new retirement pensions will be equal to about 25 percent of earnings at the end of an initial transitional period of 10 years. In addition, contributory disability and survivor pensions are introduced; such pensions have previously been provided in Canada only to needy persons on an assistance basis. All the new insurance benefits will be financed from contributions paid by insured persons and employers.

The new Canadian social insurance program is similar in significant respects to the Federal old-age, survivors, and disability insurance (OASDI) program of the United States.<sup>2</sup> There are, however, a number of important and interesting differences between the two systems. Some of the similarities and differences are pointed out in the course of the discussion below.

## PREVIOUS LEGISLATION

Canada has had Federal legislation dealing with old-age assistance since 1927. Similar legislation providing assistance for blind persons was adopted in 1937 and revised in 1951, and assistance to permanently and totally disabled persons was first provided in 1955. These assistance programs are similar in many ways to those in the United States. They are, in effect, cooperative Federal-Provincial programs, under which the Canadian Government makes grants to the Provinces covering a part of the cost of the Provincial programs. These programs were established and are administered by each Province separately.

At present the Federal Government pays 50 percent of the payments up to \$75 a month to persons with limited means aged 65-69. It also shares in the cost of payments of up to the same amount under the programs for permanently and totally disabled persons and blind persons who pass a means test. In addition, the individual Provinces often make supplementary payments under their general assistance programs, the costs of which are shared by the Federal Government under the Unemployment Assistance Act of 1956. All of these assistance expenditures are financed from general revenues of the Federal and Provincial governments.

The Provinces, for a number of decades, have also been providing assistance pensions to needy widowed mothers. The Federal Government does not participate in the cost of these pensions, but proposals to do so have been made under the Canada Assistance Plan now being developed. The new assistance plan, which would consolidate and improve existing programs, has already been the subject of formal Federal-Provincial discussions.

The Old Age Security Act, passed in 1951, established a national system of universal flat-rate old-age pensions, administered entirely by the Federal Government. Before the 1965 legislation, this program provided for payment of a flat

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<sup>1</sup> Chapter 51 of 13-14 Elizabeth II.

<sup>2</sup> See Wilbur J. Cohen and Robert M. Ball, "Social Security Amendments of 1965: Summary and Legislative History," *Social Security Bulletin*, September 1965; see also Robert J. Myers and Francisco Bayo, "Hospital Insurance, Supplementary Medical Insurance, and Old-Age, Survivors, and Disability Insurance: Financing Basis Under the 1965 Amendments," *Social Security Bulletin*, October 1965.

pension to every person who reached age 70 and who satisfied certain minimum requirements regarding length of residence in Canada. The amount of the old-age pension was originally fixed at \$40 a month. By successive amendments, this amount was raised to \$46 in July 1957, \$55 in November 1957, \$65 in February 1962, and \$75 in October 1963.

The flat-rate pension is paid at the specified age whether or not the recipient has retired. The amount of the pension does not vary with previous earnings or with the income or means of the recipient. If both a man and his wife have reached age 70, the combined pension for the couple amounts to \$150 a month.

The program of universal old-age pensions is financed out of a special old-age security fund set up in the general consolidated revenue fund of the Federal Government. The old-age fund receives its income from the earmarked yields of three taxes—a 4-percent tax on taxable income up to \$3,000 a year for all individuals; a 3-percent tax on all corporate income subject to the corporate income tax; and a 3-percent tax on manufacturers' sales.

The universal flat-pension program provided for by the Old Age Security Act will continue in force concurrently with the social insurance program enacted in 1965. The basic nature of the flat pension remains essentially unchanged, but certain modifications have been made in the age at which it is payable, in its adjustment to price changes, and in its residence requirements.

#### **LEGISLATIVE HISTORY OF CANADA PENSION PLAN**

The Canadian Government had been studying the possibility of introducing a contributory pension insurance program for a number of years. In 1950 a Joint Committee of the Senate and the House of Commons on old-age security was formed to review the existing old-age pension program, which operated with a means test and was subject to widespread criticism. After hearing testimony on a contributory and earnings-related insurance program, the Committee unanimously recommended a universal flat-rate pension beginning at age 70, as well as a Federal-Provincial old-age assistance program for persons aged 65–69 with limited means. The Old Age Security Act and the Old Age Assistance Act of

1951, both of which became effective in January 1952, followed closely the Committee's recommendations.

The Federal Government in 1958 engaged Dr. R. M. Clark "to conduct an inquiry into facts relating to old-age security systems in effect in Canada and the United States." His report—*Economic Security for the Aged in the United States and Canada*—contained no recommendations. It was presented to the Government early in 1959.

In July 1963 the Government submitted a resolution in the House of Commons and issued a supporting statement indicating its intention of enacting a contributory pension plan. The plan originally provided only for retirement pensions and pensions for aged survivors, in recognition of doubts that had been expressed about the constitutional competence of the Federal Government, under the British North America Act, to provide disability benefits and benefits for survivors under age 65. The plan thus limited was incorporated in a bill (C-75) that was given first reading in March 1964.

The Province of Ontario meanwhile had adopted a law in April 1963 requiring every private employer in the Province who employed 15 or more workers to maintain for them a pension plan with certain vesting provisions. (Under amendments adopted in 1964, maintenance of such a plan is no longer mandatory.) The Province was also studying the possibility of establishing a public pension plan for Ontario.

The Province of Quebec began developing a pension plan in August 1963, and in April 1964 it announced the details of its own pension insurance program. Other Provinces also evidenced considerable interest in pensions—a subject of concern to them not only for itself but because of its implications for savings and capital accumulation.

The various developments at both the Federal and Provincial levels made necessary extensive consultation, therefore, between the Federal Government and the Provincial governments on the subject of pension planning. Four formal Federal-Provincial conferences were held during 1963 and 1964 at which the subject was discussed, including the proposals made by the Federal Government. In June 1964, agreement was reached with the Provinces for amendment of section 94-A of the British North America Act to empower both the Canadian Parliament and the

Provincial legislatures to enact legislation concerning survivor and disability pensions as well as old-age pensions. The Canadian Constitution now authorizes the Federal Parliament to legislate concerning all three types of pensions, but it also provides that Federal legislation shall not affect the operation of any present or future Provincial legislation dealing with pensions.

On the basis of the Federal-Provincial negotiations and agreements, the Department of National Health and Welfare of the Federal Government in August 1964 issued a White Paper—*The Canada Pension Plan*. This document outlined and explained the pension insurance program that the Government was advancing.

The substance of the White Paper proposals was incorporated in a bill (C-136), which was introduced in the House of Commons for first reading on November 9, 1964. After second reading on November 18, the bill was referred to a Joint Committee of the Senate and the House of Commons. The Committee recommended certain substantive changes, as well as a number of technical changes. The Government approved and took action on most of these recommendations. The revised Canada Pension Plan bill was subsequently passed by the House of Commons on March 29 and by the Senate on April 2. It received Royal Assent on April 3, 1965.

## COVERAGE

The coverage of the new contributory pension program will extend, in general, to almost all employees and self-employed persons in Canada. Among the few groups specifically excluded are agricultural, forestry, and similar employees whose cash wages from one employer are less than \$250 a year or who are employed by an employer for less than 25 working days in a year; employees in casual employment not for the purpose of the employer's business; aliens employed as exchange teachers; employees of spouses; unpaid children employed by a parent; members of religious orders taking a vow of poverty; members of the armed forces; employees of foreign governments and international organizations, except by agreement with the employer; and employees in certain other minor employments. Coverage of employees in certain marginal types of employ-

ment, including employment outside the country and employment within the country by certain foreign employers, will be determined by regulation. Civilian government employees will be covered under the program, although coverage of Provincial Government employees is subject to agreement with each Province.

A major feature of the coverage provisions is that all persons whose earnings rates are below a specified "basic exemption" in any year are not covered during that year. In other words, they are not required to pay any contributions during that year, and no earnings are credited for benefit purposes.

For contribution purposes the basic rate of exemption for any year is ordinarily equal to 12 percent of "maximum pensionable earnings" (the earnings base) for that year. For coverage purposes, however, the basic exemption for self-employed persons is one and one-third times this amount. Accordingly, all employees who receive less than 12 percent of maximum pensionable earnings in any year and all self-employed persons who earn less than 16 percent will be excluded from coverage in that year.<sup>3</sup> Since maximum pensionable earnings will be \$5,000 a year in 1966 and 1967, employees earning \$600 a year or less, and self-employed persons earning less than \$800, will be excluded from coverage in those years.

In the United States the maximum taxable earnings base for OASDI is \$6,600 a year, and there is a \$400 minimum limit for self-employed persons. There is no minimum limit, however, for employees in industry, commerce, and certain other types of employment, although there are minimum wage requirements for some types of employment (such as \$50 a quarter for employees in domestic service and employees of nonprofit organizations and \$150 per year in certain circumstances for agricultural workers).

During 1968-75, the \$5,000 base for the Canadian program will vary automatically with annual changes in a "pension index" based on the Canadian consumer price index. From 1976 on, the base will vary with changes in an "earnings index" based on national average wages and

<sup>3</sup> These exclusion limits will be applied only in even multiples of \$100. The limits will remain unchanged in practice until a \$100 increase is warranted. Therefore, they will not always be exactly 12 percent and 16 percent of the earnings ceiling.

salaries as computed from income-tax returns. Thus, the basic exemption used in determining the point below which workers are excluded from coverage will vary after 1967 in the same manner. The U.S. program has no automatic adjustment feature for its maximum taxable earnings base, although such a procedure does apply for the "average current earnings" used in the provision that prevents excessive overlapping of disability benefits with workmen's compensation benefits.<sup>4</sup>

Under the Canadian law, any Province signifying its intention of establishing a comprehensive pension plan of its own that will provide benefits comparable to those under the national program may "contract-out" all employment within its jurisdiction from the national program. This action may be taken either within 30 days after enactment of the national law or later, on 2 years' notice. In the latter case, the Provincial program will be required to take over the accrued liability of the national program with respect to the inhabitants of the Province. At the same time, it will receive from the national program a lump-sum payment related to the total contributions paid in the past by such persons.

The Province of Quebec signified its intention of establishing its own Provincial plan, and its Legislative Assembly enacted the Quebec Pension Plan on June 23, 1965. This plan is virtually identical with the Canada Pension Plan. As a result of the Quebec action, all employees (except Federal workers<sup>5</sup>) gainfully occupied in the Province of Quebec and all self-employed persons residing there at the end of the year will be covered under the Quebec program and not under the Federal program.

Special arrangements between the Federal program and any Provincial program will have to be made for the coverage of persons moving from one Province to another or from one employment to another, in order to provide continuity of coverage without duplication of contributions. Discussions of these arrangements have already

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<sup>4</sup> For an illustration of how such a procedure could be applied to the maximum taxable earnings base under the U. S. system, see Robert J. Myers, "A Method of Automatically Adjusting the Maximum Earnings Base Under OASDI," *Journal of Risk and Insurance*, September 1964.

<sup>5</sup> Federal employees in Quebec will be covered by the Quebec plan under an agreement whereby Quebec acts as agent for the Federal Government.

been completed between the Canadian Government and the Government of Quebec.

It is estimated that in 1966 about 6.4 million persons, or 92 percent of Canada's labor force, will be covered either by the Federal pension insurance program or by that of the Province of Quebec. The OASDI program in the United States covers about the same proportion of its labor force, although its exclusions are not all the same.

## CONTRIBUTIONS

The new pension program, in contrast to the existing universal pension program, will be financed exclusively from social insurance contributions paid by insured persons and employers. A contribution by the Government from general revenue is expressly prohibited by the law, just as under the U. S. system. Like the pensions to be provided, the contributions will vary with earnings.

Contributions will not be payable with respect to anyone, even though he would otherwise be covered, who is under age 18. They also will not be payable for workers who have begun to receive a retirement pension and who will therefore be aged 65-70. In no case will contributions be payable after the worker reaches age 70. All other covered workers between the minimum and maximum age limits indicated except disability pensioners will contribute. This is one of the differences from the U. S. system, where there are no age limitations for contributors.

Contributions will be payable only with respect to that part of the earnings of an employee or a self-employed person that falls between the "basic exemption" specified in the law and the maximum pensionable earnings base. The basic exemption will be equal to 12 percent of the maximum pensionable earnings fixed for the year in question. The proportion of the maximum pensionable earnings is the same as that applied in the minimum coverage requirement for employees, but for the self-employed the proportion of the maximum pensionable earnings required for coverage is 16 percent. Thus, contributions in 1966 and 1967 for both employees and self-employed persons will not be payable on the first \$600 of earnings a year (12 percent of the maximum taxable earnings of \$5,000). A worker whose

earnings are \$1,500 a year, for example, will pay contributions only on \$900. An employee with annual earnings of \$750 will pay on \$150, but a self-employed person earning \$750 will pay nothing, since his earnings are less than the minimum earnings requirement (\$800) for coverage. (If his earnings were \$800, however, he would pay contributions on \$200.) These provisions are unlike those of the U. S. program, under which—once the minimum earnings requirement, if any, has been met—all earnings up to the maximum earnings base are subject to contributions.

At the other end of the scale, no contributions will be payable under the Canadian program with respect to that part of any individual's earnings in any year that are in excess of the maximum pensionable earnings figure. This maximum is set by law at \$5,000 a year in 1966 and 1967. Thereafter, as noted above, it will vary automatically with economic changes. The exempt amount of \$600 a year is prorated for employees over the pay periods of the year, and contributions are paid on excess wages until they have been paid on \$4,400 of wages from a particular employer. If, for example, in 1966 an employee is earning \$500 a month, he will contribute on \$450 each month for the first 9 months of the year, in the 10th month he will contribute on \$350, and in the last 2 months he will contribute nothing.

If the worker has more than one employer during a year, contributions are payable on earnings up to \$4,400 from each employer, but he receives a refund of contributions paid on the combined amounts over \$4,400. This procedure parallels that of the U. S. system.

During a transitional period from 1968 to 1975 the maximum earnings base will vary in relation to changes in a "pension index." The pension index for 1967 will be equal to the average of the Canadian consumer price indexes for the 12 months ending June 30, 1966. For each subsequent year it will in general be the average of the consumer price indexes for the 12 months ending on the preceding June 30. There are, however, two exceptions. First, if the average of the consumer price index is less than 1 percent higher than the pension index for the preceding year the pension index will remain unchanged. Second, the pension index for a given year may not be more than 2 percent higher than that for the preceding year.

The maximum earnings base for these years

(1968–75) will be derived by multiplying \$5,000 by the ratio of the pension index for the year to the pension index for 1967 (with the result, if it is not already a multiple of \$100, rounded down to the next lower multiple of \$100). If, for example, the pension index for 1970 is 4.6 percent larger than that for 1967, then the maximum earnings base in 1970 will be \$5,200 (1.046 times \$5,000 equals \$5,230).

Starting in 1976, maximum pensionable earnings will vary annually with an "earnings index" rather than with the pension index. The earnings index for any given year will be the ratio of (a) the average of all wages and salaries reported under the Canadian income tax in the 8-year period ending at the beginning of the previous calendar year to (b) the corresponding average for the 8-year period 1966–73. The maximum earnings base for years after 1975 will be the earnings base in 1975, multiplied by the earnings index for the particular year, with rounding as in the application of the pension index.

The rates of contribution payable on the earnings subject to contribution will be 1.8 percent of covered wages each for employees and employers. Self-employed persons will pay the combined employee-employer rate of 3.6 percent of earnings. The law does not provide a schedule of contribution-rate step-ups for the future, and it is believed that the present rates will be adequate for several decades. A schedule of step-ups had been proposed in the earlier bill (C-75), but it was omitted from the bill finally enacted in order to harmonize the contribution provisions of the Canada and Quebec Pension Plans.

Contribution rates under the Canada Pension Plan cannot readily be compared with those of the U. S. program. In the first place, the provisions in the United States call for future step-ups in contributions, with the combined employee-employer rate (excluding the separate contributions for hospital insurance) 7.7 percent in 1966, 7.8 percent in 1967–68, 8.8 percent in 1969–72, and 9.7 percent in 1973 and thereafter.

Second, contributions under the Canada Pension Plan do not cover the cost of the \$75-a-month flat-rate pensions provided under the Old Age Security Act, which are financed from earmarked general taxes. Thus, Canadian taxpayers with a total income of \$250 a month from all sources pay a separate old-age security tax (if the standard deduction is used and no allowance is

made for dividend tax credits) equal to approximately 2.5 percent of income if single, 1.2 percent if married but with no children, and 0.4 percent if married and with two children. Taxpayers with a total income of \$416.67 a month pay approximately 2.4 percent, 2.3 percent, and 1.8 percent, respectively, under similar circumstances. Corporations pay an old-age security tax of 3 percent of their taxable income, in addition to their employer contributions under the Canada Pension Plan. There is also a 3-percent tax on manufacturers' sales under the old-age security program, the incidence of which is indeterminable.

The principle in the Canada Pension Plan of equal employer and employee rates and that of no Government contribution parallel the provisions of the U. S. law. The two systems use different procedures, however, for the self-employed. Before the 1965 amendments, self-employed persons in the United States paid approximately 75 percent of the combined employer-employee rate; under present law, this proportion will ultimately be somewhat less for the OASDI program and only 50 percent for hospital insurance.

As a result of the basic exemption, the smaller the income the lower the effective contribution rate under the Canadian system. Table 1 shows the contributions payable under the new program at various earnings levels.

All contributions will be deductible from income subject to the Canadian income tax, as are contributions to private pension plans. Pensions, however, will be taxable like other income. These provisions are the reverse of those in the United States, where OASDI contributions of employees and self-employed persons are not deductible under the Federal individual income-tax pro-

TABLE 1.—Contributions of employees and self-employed under the Canada Pension Plan, by monthly earnings level

Monthly earnings	Monthly exempt earnings	Employee contribution <sup>1</sup>		Annual contribution by self-employed
		Monthly amount	As percent of monthly earnings	
\$60.00.....	\$50	\$0.18	0.30	( <sup>2</sup> )
100.00.....	50	.90	.90	\$21.60
150.00.....	50	1.80	1.20	43.20
200.00.....	50	2.70	1.35	64.80
250.00.....	50	3.60	1.44	86.40
300.00.....	50	4.50	1.50	108.00
350.00.....	50	5.40	1.54	129.60
400.00.....	50	6.30	1.58	151.20
416.67 <sup>3</sup> .....	50	6.60	1.58	158.40

<sup>1</sup> The employer contribution is the same as that of the employee.

<sup>2</sup> Not covered.

<sup>3</sup> Maximum possible amount of creditable earnings.

visions, but OASDI benefits are not taxable as income.

The contributions will be paid into a special "pension plan account," from which, in turn, all benefits as well as costs of administration will be paid. Balances accumulated in this account that are in excess of the amounts needed to meet current expenditures will be invested in obligations of the Provincial governments in approximate proportion to the percentage of total contributions collected in each Province. If a Province does not wish to borrow its share of total available funds in any period, the amount will be invested in obligations of the Canadian Government. The United States, in contrast, permits investment only in obligations of the Federal Government or in those with both principal and interest guaranteed by the Federal Government. (In actual practice, the latter type of investment has never been acquired.)

The estimated income and outgo of the pension plan account in future years, as well as anticipated balances in the account at different periods, are discussed later in this article.

## RETIREMENT PENSIONS

The principal benefit provided under the new Canadian social insurance program will be a "retirement pension" payable in old age. The other pensions—disability and survivor benefits—are referred to as supplementary benefits. The retirement pension will be payable concurrently with the universal flat pension provided under the old-age security program. Thus, virtually all persons who will qualify for a retirement pension will actually receive two old-age pensions at the same time.

### Qualifying Conditions

One condition that a claimant must satisfy to qualify for a retirement pension is attainment of a specified age. The minimum age at which the new pensions will be payable during 1967—the first year during which they will be paid—will be age 68. This minimum will decline to age 67 in 1968, age 66 in 1969, and age 65 in 1970. The long-run minimum pensionable age of 65 (beginning in 1970) is the same as under the

U. S. program although in the United States early retirement at ages 62-64 with actuarially reduced benefits is also allowed. The 1965 Canadian legislation similarly lowers the age at which the universal flat pension is payable. That pension, formerly payable at age 70, under the new law will be payable at age 69 in 1966 and at the same ages thereafter as the retirement pension under the Canada Pension Plan.

No minimum qualifying period of coverage or contributions will be required for eligibility for a retirement pension (unlike the provisions of the U. S. program). Thus, workers aged 68 and older in 1967 will be able to claim a pension in that year, even though they have contributed only during 1966. These payments are possible because retirement pension amounts in the early years of the Canadian program will vary directly with years of coverage. The pensions in the first few years, however, will be small—only 2.5 percent of average earnings in 1967.

Another condition for receipt of a retirement pension will be retirement from regular employment for a claimant under age 70. After he reaches age 70, a retirement requirement is no longer imposed. The earnings test imposed under the U. S. program applies only to workers under age 72.

The Canadian earnings test will be applied on both an annual and a monthly basis. The annual basis has an initial exempt amount, a band in which \$1 of benefits is withheld for each \$2 of earnings, and a \$1-for-\$1 withholding thereafter. This procedure parallels that of the U. S. program, except that the amounts in the test are different and also that the Canadian amounts are automatically adjusted in the same way as the contribution earnings base.<sup>6</sup>

Under the annual test, the exempt amount is initially \$900 (\$1,500 under the U. S. system); the "\$1 for \$2" band applies to the next \$600 (\$1,200 under the U. S. system); and the "\$1 for \$1" basis applies to earnings over \$1,500 (\$2,700 under the U. S. system). The exempt amount is prorated in the year of initial retirement, and only earnings after "retirement" (that is, the month the benefit is claimed) are considered;

<sup>6</sup> For a full description of the earnings test for OASDI benefits in the United States before the 1965 amendments, see Robert J. Myers, "Earnings Test Under Old-Age, Survivors, and Disability Insurance: Basis, Background, and Experience," *Social Security Bulletin*, May 1964.

the U. S. program has no such provision. Under the Canadian monthly test, regardless of the result that the annual test might produce, a retirement benefit is payable for any month in which earnings from wages and self-employment do not exceed \$75 (\$125 of wages and no substantial self-employment in the United States).

The exempt amounts and limits under the Canadian earnings test will vary with changes in the pension index during 1968-75, and thereafter with changes in the earnings index. The monthly exempt amount will first be determined and rounded to the nearest \$5. The annual exempt amount will then be 12 times the adjusted monthly amount, and the "\$1 for \$2" band will be eight times that figure.

### Rate of Pension

The retirement pension paid to an insured worker under the new Canadian program is equal to 25 percent of his average monthly earnings. Because of the method of computing such earnings, however, the maximum effective pension rate will be only 2.5 percent of earnings in January 1967. It will rise gradually during the next 10 years and reach 25 percent only in 1976. No supplementary benefits will be payable for a spouse or children. (A spouse aged 65 or over, however, will receive a flat pension in her own right under the Old Age Security Act and may receive an earnings-related pension on her own account.) The U. S. program, after amendments in the 1950's that extended coverage to the point where it was virtually complete, began paying full benefits almost immediately. It also provides for eligible spouses and children supplementary pensions that are a proportion of the basic benefit.

A major feature of the new Canadian program will be the automatic revaluation of a worker's actual earnings before his average monthly earnings are computed. The revaluing of the actual earnings recorded for each earlier year will be based on changes in the pension index, if he retires during 1967-75, and changes in the pension index during 1967-75 and in the earnings index thereafter if he retires after 1975. To make this revaluation, the actual credited earnings of a worker for each given year will be multiplied by the ratio of (a) the average of the

maximum earnings base for the 3 years ending with his retirement to (b) the earnings base for the given year.

To illustrate, suppose that an individual has \$4,000 of credited earnings in 1966 and that he retires in 1980, at which time the earnings base is \$7,000 (having increased from \$6,600 in 1978 and \$6,800 in 1979). The worker's adjusted recorded earnings for 1966 would be \$5,440—\$4,000 times the ratio of \$6,800 (the average of the assumed earnings bases during 1978–80) to the \$5,000 earnings base of 1966. This procedure will have the effect of adjusting newly awarded pensions to economic changes that have occurred since a worker was first covered.

During the first 10 years of the program, the average monthly earnings of a claimant reaching pensionable age will be computed by dividing by 120 (the number of months in the 10-year transitional period) the cumulative total of his adjusted credited earnings (earnings below the \$5,000 annual ceiling, as adjusted, and counting years with no coverage as zeros). A worker covered in all years from the start of the program will thus be able to qualify for a pension equal to 2.5 percent of his average adjusted earnings in 1967, 5 percent in 1968, 7½ percent in 1969, and so on up to 25 percent of earnings in 1976 and thereafter. Table 2 shows the amount of the retirement pension that will be payable in different years of the transition period to workers at various average earnings levels (assuming no change in the \$5,000 maximum earnings base).

The calculation of pensions will be somewhat different for retirements after 1975, because persons will then be able to have at least the 10 years of earnings to be applied against the 120-month minimum divisor. Average monthly earnings at that time will be determined by dividing

TABLE 2.—Monthly retirement pensions under the Canada Pension Plan, 1967–76, at various earnings levels, for persons employed in all years from 1966 until retirement

Pension commencing in January	Actual average monthly earnings while working							
	\$100.00	\$150.00	\$200.00	\$250.00	\$300.00	\$350.00	\$400.00	\$416.67
1967.....	2.50	3.75	5.00	6.25	7.50	8.75	10.00	10.42
1968.....	5.00	7.50	10.00	12.50	15.00	17.50	20.00	20.83
1969.....	7.50	11.25	15.00	18.75	22.50	26.25	30.00	31.25
1970.....	10.00	15.00	20.00	25.00	30.00	35.00	40.00	41.67
1971.....	12.50	18.75	25.00	31.25	37.50	43.75	50.00	52.08
1972.....	15.00	22.50	30.00	37.50	45.00	52.50	60.00	62.50
1973.....	17.50	26.25	35.00	43.75	52.50	61.25	70.00	72.92
1974.....	20.00	30.00	40.00	50.00	60.00	70.00	80.00	83.33
1975.....	22.50	33.75	45.00	56.25	67.50	78.75	90.00	93.75
1976.....	25.00	37.50	50.00	62.50	75.00	87.50	100.00	104.17

TABLE 3.—Combined monthly retirement and old-age security pensions payable to qualified aged beneficiaries under the Canadian pension program in 1976, at various earnings levels

Average monthly earnings	Single beneficiary <sup>1</sup>		Married couple <sup>2</sup>	
	Combined pension	Percent of earnings	Combined pension	Percent of earnings
0.....	\$75.00	( <sup>3</sup> )	\$150.00	( <sup>3</sup> )
\$50.00.....	87.50	175	162.50	325
100.00.....	100.00	100	175.00	175
150.00.....	112.50	75	187.50	125
200.00.....	125.00	63	200.00	100
250.00.....	137.50	55	212.50	85
300.00.....	150.00	50	225.00	75
350.00.....	162.50	46	237.50	68
400.00.....	175.00	44	250.00	63
416.67.....	179.17	43	254.17	61

<sup>1</sup> Applies also to a married beneficiary whose spouse is ineligible for any pension.

<sup>2</sup> Assumes that only 1 spouse is eligible for retirement pension, but that both spouses are aged 65 or over and eligible for flat-rate old-age security pensions of \$75.

<sup>3</sup> Not applicable.

cumulative credited earnings (as adjusted) by the total number of months that have elapsed after 1965 and before attainment of age 65, but with a 15-percent dropout provision. Under this provision, 15 percent of the years with lowest earnings before age 65 will be omitted from the calculation of average earnings, if total earnings are not thereby averaged over a total of less than 120 months. An individual who retires in 1986, for example, would have 20 elapsed years after 1965 and so could have a dropout of 3 years. His average earnings would then be computed from the total of his highest 17 years of covered earnings divided by 204 months. Ultimately, after the year 2011, the dropout can be as much as 7 years (15 percent of the 47 years from age 18 to age 65).

In addition, a person who continues to work after he reaches age 65 can substitute 1 year of higher earnings after age 65 for an earlier year of low earnings. The year substituted cannot be (1) after the worker has reached age 70 or (2) a year after he has initially retired.

The method of calculating average earnings under the Canadian program is similar in many ways to that under the U. S. program. Both use average lifetime covered earnings after a specified starting date and up to a minimum retirement age, but with a dropout of certain years of low earnings (5 years in the United States and 0–7 years in Canada). Both programs, also, permit substitution of years with high earnings after the minimum retirement age (65 in Canada and 65 for men and 62 for women in the United



States), except that the U. S. program has no requirement that the post-65 years must be before retirement and before age 70.

Table 3 shows the combined earnings-related retirement pensions and the uniform \$75-a-month old-age security pensions that will be available in Canada to aged pensioners in 1976 (at the end of the transitional period), assuming that no changes have occurred by that time in price or wage levels that would lead to their automatic adjustment. The table also shows the combined pensions as a proportion of average earnings.

Table 4 compares the combined retirement and flat pensions that will be payable in 1976 under the Canadian system with old-age benefits under the OASDI program in the U. S. as amended in 1965 (again disregarding any changes that might occur in Canadian pensions because of their automatic-adjustment provisions). The table indicates that the combined Canadian pension will be larger than old-age benefits under the U. S. program in all instances but one—when the wife of a man aged 65 or over is herself aged 62-64.

In addition to the adjustment of credited wages under the Canadian system, the amounts of all earnings-related retirement pensions in force, as well as all universal flat pensions in force, will be automatically adjusted annually in the future for increases in the pension index, which will occur if prices go up. Pensions will not be reduced in those years when prices decline, since then the pension index is held constant. In such circumstances, however, pension increases in subsequent years would be slowed down, since the pension index will not change until the price

index has risen above its earlier peak. It is important to note that pensions in force will be adjusted by the pension index in all future years, and not by the earnings index that is applicable to the earnings base (and thus the adjustment of past earnings records for those who have not yet retired) for years after 1975.

## DISABILITY PENSIONS

Earnings-related disability pensions will be payable beginning in May 1970 under the new Canadian program to insured persons who are disabled and satisfy the minimum qualifying period of contribution specified. A worker will be considered disabled if he suffers from a severe and prolonged physical or mental disability. A disability is regarded as severe if it renders a worker incapable of pursuing regularly any substantially gainful occupation. A disability is considered prolonged if it is determined that it will actually be of long-continued and indefinite duration or is likely to result in death. This is the same definition used in the United States before the 1965 amendments. That legislation, however, eliminated the "prolonged" requirement and substituted an expected duration of at least 12 months.

The contribution period required to qualify for a disability pension is 5 calendar years out of the last 10 years. A "contribution year" for both disability and survivor pensions is a calendar year for which any contribution was made. After 1981, total contribution years must also equal at least one-third of the years elapsing after 1965 (or the

TABLE 4.—Total monthly pensions of aged beneficiaries under Canadian and United States programs, 1976, at various earnings levels

Average monthly earnings	Payable to single beneficiary, aged 65 or over			Payable to married couple, both aged 65 or over at time of husband's retirement <sup>1</sup>			Payable to married couple, husband aged 65 or over and wife aged 62 at time of his retirement <sup>2</sup>				
	Canada	U.S.	Canada as percent of U.S.	Canada	U.S.	Canada as percent of U.S.	Canada, while wife is aged 62-64	Canada, when wife is aged 65 or over	U.S.	Canada as percent of U.S.	
										While wife is aged 62-64	When wife is aged 65 or over
\$100.....	\$100.00	\$63.20	158	\$175.00	\$94.80	185	\$100.00	\$175.00	\$86.90	115	201
200.....	125.00	89.90	139	200.00	134.90	148	125.00	200.00	123.70	101	182
300.....	150.00	112.40	133	225.00	168.60	133	150.00	225.00	154.60	97	146
400.....	175.00	135.90	129	250.00	203.90	123	175.00	250.00	186.90	94	134
417 <sup>1</sup> .....	179.17	139.00	129	254.17	208.50	122	179.17	254.17	191.20	94	133
550 <sup>2</sup> .....	179.17	168.00	107	254.17	252.00	101	179.17	254.17	231.00	78	110

<sup>1</sup> Maximum possible amount of earnings creditable under Canadian system.

<sup>2</sup> Maximum possible amount of earnings creditable under U.S. system,

effective in 1966.

<sup>3</sup> Assuming wife not eligible for benefit based on her own earnings record.

worker's attainment of age 18, if later); in no event, however, are more than 10 years required. These conditions are generally similar to those for receipt of disability benefits under the U. S. system.

Disability pensions will become payable after a waiting period of 3 full calendar months—that is, for the fourth month following that in which disablement occurs. Under the U. S. system, the corresponding waiting period is 7 months. If a worker is disabled in January, for example, under the Canadian system the first monthly benefit payment would be made if he survived until May 1; under the U. S. program the corresponding date would be September 1.

The Canadian disability pensions will be made up of (1) a flat amount of \$25 a month and (2) an earnings-related amount equal to 75 percent of what the worker's retirement pension would have been if calculated as though he has reached age 65 on the date the disability pension starts (without regard to the lower pension rates in the first 9 years). The earnings-related amount will thus, in effect, be equivalent to 18.75 percent of average earnings. All disability pensions outstanding will be subject to automatic adjustment each year for price increases, as reflected in the pension index.

The disability pensions that will be payable to workers at different earnings levels are shown in table 5. At almost all earnings levels the disability pension exceeds the wage-related retirement pension alone, but it is substantially less than the sum of the retirement pension and the flat old-age pension payable under the Old Age Security Act. When a disability pensioner reaches age 65, his disability pension is converted to a retirement pension, which in this case is not reduced because of the noncontributory

TABLE 5.—Monthly disability pensions under the Canada Pension Plan, at various earnings levels

Average monthly earnings	Disability pension	
	Amount	Percent of earnings
\$50.00.....	\$34.38	69
100.00.....	43.75	44
150.00.....	53.13	35
200.00.....	62.50	31
250.00.....	71.88	29
300.00.....	81.25	27
350.00.....	90.63	26
400.00.....	100.00	25
416.67.....	103.13	25

TABLE 6.—Combined pensions<sup>1</sup> payable to widows aged 65 and over under the Canada Pension Plan and Old Age Security Act, at various earnings levels

Average monthly earnings of husband	Average monthly earnings of widow <sup>2</sup>					
	None	\$50.00	\$100.00	\$200.00	\$300.00	\$416.67
\$50.00.....	82.50	92.19	104.69	129.69	154.69	179.17
100.00.....	90.00	97.50	109.38	134.38	159.38	179.17
150.00.....	97.50	105.00	114.06	139.06	164.06	179.17
200.00.....	105.00	112.50	120.00	143.75	168.75	179.17
250.00.....	112.50	120.00	127.50	148.44	173.44	179.17
300.00.....	120.00	127.50	135.00	153.13	178.13	179.17
350.00.....	127.50	135.00	142.50	157.81	179.17	179.17
400.00.....	135.00	142.50	150.00	165.00	179.17	179.17
416.67.....	137.50	145.00	152.50	167.50	179.17	179.17

<sup>1</sup> Represents old-age security pension of \$75 plus, if widow is not eligible for her own retirement pension, widow's pension (60 percent of husband's retirement pension) or, if she is eligible for own retirement pension, the most favorable combination of fractions of her own and her husband's retirement pensions.

<sup>2</sup> Assumes that widow attains age 65 after 1975. Figures below the line result from application of the "60 percent of both pensions" alternative. The maximum widow's pension is \$179.17 a month (25 percent of maximum monthly earnings plus \$75 flat pension).

periods while he was receiving a disability pension. At age 65, he also receives the \$75 old-age pension, and his basic pension income is thus increased. Under the U. S. system, old-age benefits and disability benefits are equal.

Disability pensioners will also receive an additional benefit with respect to each child in their care under age 18 (age 25 if a student) at the time of disablement. The child's pensions will be payable to a disabled female worker only if she was the main support of the child. When the disability pensioner attains age 65 and has his pension converted to a retirement pension, the child's pensions cease. These provisions are generally similar to those of the U. S. system, except that child's benefits under OASDI are paid to children acquired after the worker's disablement, do not terminate when the disability pensioner attains age 65, and continue for children in school only up to age 22.

The benefit for each of the first four eligible children of disability pensioners under the Canadian program will be a uniform \$25 a month, and for each additional child it will be \$12.50. These amounts will be adjusted automatically for changes in the pension index.

It is apparent that large low-income families may be able to receive as much as or more in disability and child's pensions than the worker's former earnings. This situation could occur for a worker with average monthly earnings of \$150 if he has at least four children; it could occur even at a monthly earnings level of \$200 if there are seven children.

The United States pays supplementary benefits with respect to disability beneficiaries not only for eligible children but also for the wife, or for the wife alone if she is aged 62 or over.<sup>7</sup> These supplementary benefits are related to the disability benefit and thus are themselves earnings related. The total family benefit in the United States cannot exceed 80 percent of average earnings (except when such earnings are less than about \$145 a month) up to about \$370 a month. The percentage is somewhat lower for higher average earnings (66 $\frac{2}{3}$  percent for the maximum average earnings of \$550 a month).

## SURVIVOR PENSIONS

The new Canadian legislation also provides for payment of earnings-related pensions to several different categories of survivors. Their rights to such pensions are based on the contributions previously made by the deceased breadwinner.

The qualifying period required for eligibility is contributions by the deceased worker during at least one-third of the years after 1965 (or the year he attains age 18, if later) and up to the year of his death or attainment of age 65 (or retirement, if later). A minimum of 3 years of contributions is required, but in no case more than 10 years. As a result of these qualifying conditions, the first month for which survivor pensions will be payable is February 1968. The provisions are generally similar to those under the U. S. program, except that they are based on years of contribution rather than on quarters of coverage.

A widow who has reached age 65 at her husband's death, or who later reaches that age, will be entitled under the Canadian program to a "widow's pension." This pension will be equal to 60 percent of what her husband's retirement pension would have been. She will simultaneously receive a flat-rate old-age security pension of \$75 a month in her own right (in 1968 at age 67, in 1969 at age 66, but thereafter at age 65).

Many widows aged 65 or over will also build up eligibility for a wage-related retirement pension based on their own earnings. The widow

will then receive the larger of (a) 60 percent of her own retirement pension, plus the ordinary widow's pension of 60 percent of her husband's retirement pension, or (b) 100 percent of her own retirement pension, plus 37.5 percent of her husband's retirement pension. She will also receive the \$75 old-age security pension. Under the U. S. provisions a widow receives, in essence, only a proportion of her husband's benefits or a benefit based on her own earnings, whichever is larger.

A pension is also payable to a widower who has reached age 65 and was disabled and dependent upon his wife at her death. The provisions are essentially the same as those for aged widows.

Table 6 gives the amount of the total pension, before adjustment for price changes, that will be payable to widows aged 65 and over. The figures represent the combined total of the \$75 old-age security pension, the widow's pension based on her husband's earnings, and the widow's retirement pension, if any, based on her own earnings. Only the larger of the pension amounts for which a widow can qualify when she is entitled to a pension based on her own earnings is shown. The figures below the descending line are those derived from use of alternative (a) described above, and those above the line are the ones that result from use of alternative (b). It is evident that the total pensions of aged widows in Canada will be larger, in general, than widow's benefits in the United States, which will range from \$44.00 to \$138.60 a month, with \$6,600 as the earnings base. In the United States, however, aged widow's benefits are payable at age 62 or, subject to a lifetime actuarial reduction, as early as age 60.

Pensions for widows under age 65 are on a different basis than those for older widows. The full "widow's pension" for qualifying widows under age 65 consists of a uniform amount of \$25 a month (adjusted for changes in the pension index) plus 37.5 percent of the retirement pension of the deceased worker. This full pension is payable to the following survivors:

- (1) Widow with dependent child under age 18 (under age 25 if continuing in school, or of any age if disabled before attaining age 18 or, if later, before the father's death)
- (2) Widow aged 45 or over at widowhood, or when there is no longer an eligible child
- (3) Widow of any age if disabled, or if she later becomes disabled

<sup>7</sup> In Canada, a wife aged 65 or over of a disability pensioner will receive an old-age security pension of \$75 a month in her own right.

(4) Dependent widower of any age if disabled.

A nondisabled widow who is under age 45 at the time she is widowed or when her last child ceases to be eligible will receive a full pension that is reduced, until she reaches age 65, by 10 percent for each year she is under age 45 at the time of widowhood or, if later, when the last eligible child attains age 18 or ceases to be disabled (even if he was eligible later because of school attendance). No pension will be payable, accordingly, to widows under age 35 at widowhood if they have no dependent children and are not disabled.

The eligible children receive flat-rate pensions, subject to adjustment for price changes, in the same manner as do children of disability pensioners. These pensions amount to \$25 a month for each of the first four children and to \$12.50 for each additional child beyond four. They are also payable to full orphans, as well as to surviving children of women workers who were their main support.

Table 7 gives the total amount of the pension, including orphans' pensions, that will be payable to widows with young children in their care, at various earnings levels.

There are many similarities in the "young survivor" benefit provisions of the Canadian and U. S. systems, but there are also a number of significant differences. Canada pays benefits to the following categories of survivors, but the United States does not: childless widows who are aged 35-59; disabled widows and widowers of any age; widows with children disabled after they reach age 18 but before the father's death; children in school at ages 22-24; and widowed mothers of children aged 18-24 in school. The

TABLE 7.—Monthly pensions for widows under age 65, under the Canada Pension Plan, at various earnings levels and for various numbers of orphans in family

Average earnings of husband	Monthly pension to widow under age 65 with—					
	No child	One child	Two children	Four children	Five children	Ten children
\$50.00.....	\$29.69	\$54.69	\$79.69	\$129.69	\$142.19	\$204.69
100.00.....	34.38	59.38	84.38	134.38	146.88	209.38
150.00.....	39.06	64.06	89.06	139.06	151.56	214.06
200.00.....	43.75	68.75	93.75	143.75	156.25	218.75
250.00.....	48.44	73.44	98.44	148.44	160.94	223.44
300.00.....	53.13	78.13	103.13	153.12	165.63	228.13
350.00.....	57.81	82.81	107.81	157.81	170.31	232.81
400.00.....	62.50	87.50	112.50	162.50	175.00	237.50
416.67.....	64.06	89.06	114.06	164.06	176.56	239.06

U. S. system pays child survivor benefits with respect to women who had a recent work record even though they were not the child's main support, and the Canadian program does not.

Comparison of benefit amounts for "child survivor" families under the two national programs is difficult because of the different methods of computation involved. The U. S. program pays no additional benefit for children in excess of three (usually only for a maximum of two), when the mother is also being paid a benefit. The Canadian program, in contrast, places no limit on the total number of children for whom additional orphans' benefits are paid. For survivor families consisting of two children and widow, the U. S. program tends to provide larger benefits, ranging from \$94.80 a month for an average monthly wage of \$100 to a maximum of \$368.00 with \$6,600 as the earnings base; in Canada the corresponding range for the same three survivors is \$84.38-\$114.06. Even for a widow with 10 children, the maximum Canadian pension is only \$239.06 a month. The U. S. benefits tend also to be larger when children are the sole beneficiaries, since the Canadian system then pays only flat amounts not related to earnings.

The widow's pension amount changes drastically under the Canadian system when she attains age 65 and becomes eligible for a flat-rate old-age security pension, and possibly also for an earnings-related pension on her own work record. She will receive a substantial increase in all circumstances, since her total pension at age 65 and after will at least equal the sum of the \$75 universal pension and 60 percent of her husband's retirement pension—in contrast to her pension before age 65 of \$25 a month plus 37½ percent of her husband's retirement pension. A typical case might be that of a widow whose husband had average earnings of \$350 a month and who herself has had average earnings of \$100 a month. The pension payable to her before age 65 would be \$57.81 a month; her total pension at age 65 would rise to \$142.50 (\$127.50 if she had had no earnings of her own).

A lump-sum death benefit is also payable under the Canada Pension Plan to the surviving spouse or orphans (or otherwise to the estate). The qualifying conditions are the same as those for survivor pensions. The death benefit is equal to six times the monthly retirement pension the deceased individual had been receiving or that

<sup>1</sup> Assumes full pension is payable to widow (see text for categories involved).

would have been payable to him if he had retired on the date of his death and had then been aged 65. Since the benefit, however, may not exceed 10 percent of the earnings base in that year, the initial maximum is \$500.

All persons with average monthly earnings of two-thirds or more of the maximum lump-sum death benefit will therefore be affected by the "10 percent of earnings base" maximum. To put it another way, the maximum lump-sum payment applies to all persons with average monthly earnings of 80 percent or more of the maximum taxable base. Though the lump-sum death payment provisions are fairly similar in both programs, the Canadian amounts are about twice as large as those in the United States—6 months' basic benefit in contrast to 3 months' benefit, and a \$500 maximum as opposed to a \$225 maximum.

## **ADMINISTRATION**

The control and direction of the administration of the new earnings-related pension program, other than coverage functions and the collection of contributions, are entrusted to the Department of National Health and Welfare, which will actually administer the program. The Department of National Revenue will be responsible for controlling and directing the administration of coverage and contributions.

Employers will be required to withhold employee contributions from each wage payment made to their workers. They are to transmit these contributions monthly, with their own contributions, to the Department of National Revenue. Contributions by self-employed persons will be paid directly to the same Department, with their regular income-tax returns. The Department of National Revenue will regularly transmit to the Department of National Health and Welfare reports on the pensionable earnings of each person covered. These procedures closely parallel those in the United States.

The Department of National Health and Welfare will be responsible for maintaining the earnings record of each insured worker and also for awarding and paying pensions to him as they become due. Each worker covered under the program will be assigned a social insurance number, which will be used in the electronic maintenance of wage records. Social insurance numbers have

been issued in the past to more than 6 million persons in Canada, in connection with its unemployment insurance program. This numbering system will be extended for use under the new program. Earnings records will be kept in such a way as to make possible the identification of the Provinces in which all contributions for a worker have been paid. Data-processing equipment will be used in the calculation of benefits, as well as in the recordkeeping process.

The administration of the national program will be closely coordinated with the administration of the program of any Province that decides to contract out of the national system. This coordination will be necessary to assure that workers who have contributed under two or more programs at different times will have the same rights and benefits as if they had contributed under only one program throughout their working life. Coordination has already been worked out between the Federal administrative authorities and the Province of Quebec.

The law authorizes the Minister of National Health and Welfare to enter into agreements with the governments of other countries that have old-age, disability, or survivor programs, in order to make reciprocal arrangements relating to the administration of the two programs. The arrangements may deal with any necessary exchange of information, the payment of benefits under one system to recipients residing in the other country, and the extension of benefits under the law of either country to persons employed in or resident in the other country. Adaptations of the Canadian law for the persons affected, as well as necessary financial interchanges required to implement the agreements, may be made by regulation. The Federal Government is also authorized to enter into reciprocal arrangements with the governments of foreign countries on behalf of Provincial pension plans, if the Province concerned requests it to do so.

## **CHANGES IN UNIVERSAL PENSIONS**

The Act of April 3, 1965, also amended several provisions of the Old Age Security Act providing for universal flat-rate pensions. For one thing, the age at which these flat-rate pensions are payable will be progressively lowered over a 5-year period from 70 to 65. Specifically, this

pension will become payable at age 69 in 1966, age 68 in 1967, age 67 in 1968, age 66 in 1969, and age 65 in 1970 and thereafter.

In the second place, though the basic rate of the universal pension of \$75 a month remains unchanged, starting in 1968 this amount will be adjusted annually for increases in the pension index, reflecting increases in the consumer price index. These increases will be made, however, only when there has been an increase of 1 percent or more in the pension index during the preceding period, and they may not exceed 2 percent in any year.

A third amendment permits persons who have resided in Canada for 40 years or more since they reached age 18 to qualify for a universal flat pension, irrespective of any other residence requirements prescribed in the act. This amendment is designed to make the flat pension available to many persons who leave Canada before they reach age 65 but who have spent the greater part of their working life there. In other words, the ordinary requirement of recent residence is waived for persons who have had a long period of residence in the country.

## **FUTURE INCOME AND OUTGO OF PENSION PROGRAMS**

An extensive actuarial cost report on the Canada Pension Plan was prepared as it was being considered in late 1964.<sup>8</sup> The provisions finally adopted, however, differed in a few significant respects from those dealt with in the report. First, the proportion of the years with lowest earnings that can be dropped out of the computation of average earnings (but with no less than 10 years being used in the average) was increased from 10 percent to 15 percent. Second, more liberal benefits for orphans were provided, since half-rate benefits are now payable for orphans in excess of four in a family. Third, benefits for children of disability beneficiaries, at the same rates as those for orphans, were added.

The more liberal dropout provision, of course, will have no effect on costs during the first 10

years of operation. Thereafter, it will have a relatively small effect for a few years, but after 1990 it will raise costs by about 0.1 percent of covered earnings. The liberalization of orphans' benefits represents a negligible increase in cost when measured against covered earnings. The addition of benefits for the dependent children of disability pensioners will also have only a small cost effect in the early years of operation, but after about 10 years it will represent an added cost of about 0.1 percent of earnings. These additional cost aspects should be kept in mind in considering the following discussion, which is based primarily on the cost estimates shown in the actuarial report.

The actuarial cost estimates were prepared on several alternative bases concerning future changes in price and earnings levels. Prices are assumed to increase during the first 10 years at an average annual rate of 1½ percent and thereafter by either 1½ percent or 2 percent. The general earnings level is assumed to increase alternatively by 3 percent and 4 percent a year. The following discussion is based primarily on the estimates that assume a 4-percent annual increase in earnings and on the intermediate assumption concerning changes in the price level—an annual change of 1½ percent until 1975 and 1¾ percent thereafter.

Because of the qualifying periods and the deferred nature of the pension formula during the first 10 years of operation, the estimated outgo for benefit payments and administrative expenses in the early years of the program will be relatively low. It will be less than 0.5 percent of covered earnings for all years before 1970 and will rise to only about 2¼ percent in 1975 (including an allowance for the subsequently added liberalizations). Thereafter, the cost is estimated to rise steadily and by 1980 to reach about 3½ percent of earnings. At this point, contribution income would approximately equal benefit outgo. Interest earnings on the accumulated funds would provide sufficient financing for several additional years, but then an increase in the contribution rate is expected to be necessary.

Some indication of the ultimate contribution rates needed may be obtained by considering the cost of the benefits and administrative expenses in relation to covered earnings in the distant future. This cost is expected to approach 5 percent of covered earnings by 1990, to average

<sup>8</sup> Government of Canada, Department of National Health and Welfare, *The Canada Pension Plan, Actuarial Report*, November 6, 1964.

slightly less than 5 percent for the next 30 years, and to exceed 5 percent thereafter, tending toward 5½ percent (when allowance is made for increased costs resulting from the liberalizations incorporated after the actuarial estimates had been prepared). If the estimates based on a 3-percent average annual increase in earnings are considered, the long-range costs (for 25 or more years in the future) are increased by about a further 0.6 percent of earnings.

Income from the combined 3.6-percent contribution rate is estimated to total about \$440 million for the first year of operation (on an accrual basis) and then to gradually increase as the population grows and as the earnings level is assumed to rise—reaching about \$660 million in 1975. The annual outgo for benefits and administrative expenses is estimated to be relatively small in the first few years and to reach only \$100 million in 1970 and \$390 million in 1975. As a result, the fund accumulated in the pension plan account will grow rapidly and, with interest accumulations at an assumed annual rate of 5 percent through 1975 and 4 percent thereafter, will amount to about \$5 billion at the end of 1975. After 1975 the fund will grow more slowly, reaching a peak of \$8 billion in 1985 and then declining until it is exhausted shortly after the year 2000. These figures would be somewhat lower if earnings were assumed to increase 3 percent a year rather than 4 percent. They will be lower in any case because of the liberalized benefit provisions that were introduced after the actuarial report was prepared.

In summary, analysis of the actuarial cost estimates indicates that the initial 3.6-percent contribution rate will probably be adequate to support the outgo for benefit payments and administrative expenses of the earnings-related benefit program until at least 1985, and at the same time will result in the accumulation of a

rather substantial fund in the pension plan account. In fact, the fund in 1975 will amount to about 13 times the estimated benefit outgo and 28 percent of covered earnings in that year. (To put these figures in perspective, if the old-age and survivors insurance and disability insurance trust funds under the U. S. programs had represented this proportion of covered earnings in 1963, they would have amounted to \$63 billion, in contrast to the actual figure of \$21 billion.) The contribution rates under the Canada Pension Plan will have to be raised some time after 1985, according to the above estimates, if the fund is not to be used up and if no other financing is provided. By 1990 the combined employer-employee contribution rate may have to be about 5 percent, and ultimately it may have to be from 5½ percent to 6 percent.

The Canada Pension Plan specifically provides that any statutory amendments by Parliament of contribution rates or methods of calculating contributions, management or operation of the pension fund, general level and classes of benefits, and benefit formulas shall not go into force until at least two-thirds of the Provinces (excluding those that have contracted out), containing at least two-thirds of the population in the Provinces that have not contracted out, have consented to the changes.

It should be emphasized again that the contribution rates, income and outgo data, and fund accumulations referred to above relate only to the contributory earnings-related insurance pensions provided under the Canada Pension Plan. They do not include the taxes and expenditures connected with the financing of the monthly flat-rate pensions of \$75 a month payable to all aged residents under the old-age security program. Large financial magnitudes are also involved under the latter program, which is essentially, however, on a pay-as-you-go basis.