Requests for additional information about the 176-page report should be directed to the **Publications Staff, Office of Research, Statistics, and International Policy, Social Security Administration, Room 1120, Universal North Building, 1875 Connecticut Ave., N.W., Washington, D.C. 20009.**

Highlights From Canadian Government Green Paper: Better Pensions for Canadians

The Canadian Government recently proposed for public debate a series of possible changes to its social security and private retirement systems. The proposals were contained in a Green Paper entitled, **Better Pensions for Canadians**. Released in December 1982, the paper addresses the means of improving coverage and retirement income, the financial stability of the system, the correct mix of national retirement programs—the universal Old Age Security and Guaranteed Income Supplement with the earnings-related programs (Canada Pension Plan and Quebec Pension Plan)—and the relative roles of public programs, private pensions, and private savings.

The issuance of the Green Paper is the first step in the pension reform process. A Parliamentary Special Committee is holding public hearings throughout Canada during 1983 to obtain public reaction to the specific proposals. The committee is to report to Parliament by the end of 1983 with detailed recommendations for action. If Parliament legislates any changes in the Canada Pension Plan, the governments of the various provinces must consent for the changes to become law.

Highlights from the Green Paper are reproduced below, verbatim. Footnotes have been added to clarify some sections. Further information is available from Daniel Wartonick, Comparative Studies Staff, Office of Research, Statistics, and International Policy, Social Security Administration.

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Introduction

Many Canadians have expressed concern over the adequacy and fairness of the retirement income system. In response to these concerns, the Government of Canada is putting forward for discussion and debate a number of proposals for reform. These proposals will be referred to a Parliamentary Committee through which all interested parties and the public at large will have the opportunity to express their views.

The government invites all Canadians to study and discuss these suggested initatives, and to recommend ways in which they might be improved. It is only through the co-operative efforts of all Canadians that the full diversity of circumstances can be taken into account and the desirability of the proposals properly judged.

The government's overriding priority is to restore the health of the Canadian economy to its full vigour. Some have argued that discussion of pension reform should be postponed until economic recovery is well under way. Their concern is that confidence in the economy would deteriorate if the uncertainty of increased pension costs were added to the current problems in the economy.

It does not need to be stressed, given the "6 & 5" program,[1] that the Government of Canada is acutely aware of the seriousness of the current economic situation and of the need to contain costs. However, pension reform will be a lengthy process because of the time required for consultation, negotiation, legislation and implementation. Thus, costs arising from pension reform will not be felt in the immediate future and will not interfere with the current program of economic recovery.

The Government of Canada believes that discussion of pension reform, pursued in a spirit of openness and co-operation, should now focus on the proposals that are presented in *Better Pensions for Canadians.*

The Existing Retirement Income System

The federal **Old Age Security** pension (OAS) is the foundation of retirement income in Canada. All residents of Canada over age 65 receive an indexed flat rate benefit, based on years of residence in Canada; the indexing of OAS, however, will be capped over the next two years at 6% and 5% respectively in the context of the "6 & 5" program. The OAS benefit was $2,842 a year in 1982. OAS payments represented about 25% of all income received by the elderly in 1979, the most recent year for which full data are available.

The compulsory **Canada Pension Plan** (CPP) and the parallel **Quebec Pension Plan** (QPP) provide a second source of retirement income.[2] The maximum benefit under these plans was $3,692 in 1982. In 1979, these plans provided some 8% of the income of the elderly, since only those who retired after 1976 were eligible for full pensions. However, this percentage is growing rapidly as these plans mature.

Old Age Security pensions, and the Canada and the Quebec Pension Plans were designed to leave consider-

[1] The "6 & 5" program refers to the Canadian Government's plan to reduce inflation to 6 percent in 1983 and 5 percent by the end of 1984 through limited increases in government spending and voluntary compliance to wage guidelines in the private sector.

[2] At the inception of the CPP, all provinces had the option to set up their own public pension programs. Quebec was the only province to opt out of the Canadian program by establishing the QPP. However, the QPP has provisions that are almost identical to the CPP and earnings credits are portable between the two plans.

able room for individuals to provide for their own retirement. The largest single source of retirement income is personal **investment** which accounts for 33% of the income of the elderly. Much of this income, however, is concentrated in the hands of a few elderly so that for most pensioners, this source of income is much less significant.

In 1980, about 3.1 million men and 1.4 million women belonged to **employer-sponsored pension plans,** while about 2 million people, about a third of whom were women, contributed to **Registered Retirement Savings Plans** (RRSPs)[3] that year. About half of the contributors to RRSPs also belonged to employer-sponsored pension plans. In 1979, 12% of the income of the elderly came from employer-sponsored pension plans and annuities.

Provincial governments regulate employer-sponsored pension plans for about 90% of the labour force. The federal government regulates such plans for the remainder. The federal government and, to a lesser extent, provincial governments provide a substantial amount of **tax assistance**[4] to employer-sponsored pension plans and to RRSPs.

The co-operation of the federal and provincial governments, business and labour has led to the establishment of a framework for private pensions that is largely uniform throughout Canada. It is in the interest of all Canadians that this basic uniformity be maintained.

In addition, there are federal and provincial programs which guarantee minimum incomes for the elderly. The most important of these is the Government of Canada's **Guaranteed Income Supplement** (GIS). In 1982, the combination of Old Age Security and the Guaranteed Income Supplement assured elderly couples of an income of at least $10,084, while single people were guaranteed at least $5,695. In 1979, 8% of the income of Canadians aged 65 and older came from the Guaranteed Income Supplement. Some provinces further supplement this basic minimum income with programs of their own.

Why Is Reform Needed?

Three main principles underlie the legislation governing the current Canadian pension system.

- Elderly Canadians should be guaranteed a reasonable minimum level of income.
- Opportunities and arrangements available to Canadians to provide for their retirement should be fair.
- Canadians should be able to avoid serious disruption of their pre-retirement living standards upon retirement.

Measured against these principles, the existing retirement income system could be improved in several areas.

- Although Old Age Security and the Guaranteed Income Supplement were sufficient in 1982 to keep most elderly couples out of poverty, some of the elderly, particularly women, still have insufficient income.
- Many employers treat pension credits as rewards for long and faithful service, rather than as deferred compensation or assets on which the employee is entitled to a reasonable investment return. As a result, employees often lose pension rights if they change employers or leave paid employment before retirement. Canadians entitled to an employer-sponsored pension—and they are still a minority—often find its value eroded by inflation.
- These problems are generally worse for women who are less likely to be offered pension plan coverage and are more likely to lose any pension protection they may have because they change jobs more often.
- Pension assets typically are not treated as belonging to husband and wife jointly, although both share in the sacrifice made to accumulate pension assets during working years. Spouses—usually women—are often left with no retirement income from employer-sponsored pension plans in the event of marriage breakdown or the death of the plan member.
- There are inequities in the different limits on tax-deductible contributions to Registered Retirement Savings Plans and employer-sponsored pension plans in particular. In some cases, tax sheltered retirement savings of over $1 million can be accumulated. In other cases, these limits inhibit the accumulation of sufficient retirement savings by persons who can only start to save late in their careers (e.g., many self-employed) or who do not participate full-time in the labour force throughout their working lives (e.g., many women).

Nor are problems with the existing pension system confined to employer-sponsored plans. Changes should also be considered in the Canada and Quebec Pension Plans.

- The level of maximum earnings covered by these two public plans has not kept pace with average wages thereby resulting in maximum benefits being lower than intended.
- Workers under the Canada Pension Plan who leave the labour force to raise children are penalized through a loss of retirement benefits. The Quebec Pension Plan has a 'drop-out' provision to deal with this problem, but the Government of On-

[3] Registered Retirement Savings Plans are similar to Individual Retirement Accounts in the United States. Tax-deductible contributions with ceilings for single and married workers are made to tax-deferred annuity plans, and can be withdrawn upon retirement.

[4] "Tax assistance," in this context, refers to the tax-deductible contributions that both employees and employers may make to registered employer-sponsored pension plans and RRSPs.

tario has thus far blocked its implementation in the Canada Pension Plan.[5]

- Both the Canada and Quebec Pension Plans reflect the view that spouses of contributors are dependents rather than full economic partners who should share in the protection provided by accumulated pension asssets. As a result, the spouse at home—usually female—has no personal Canada or Quebec Pension at age 65, and no pension rights in the event of serious disability. Spouses also face complex survivor benefit rules which can reduce or eliminate benefit entitlements, depending on age, the presence of children, and subsequent marital status. These issues will have to be reviewed.
- The financing of the Canada and Quebec Pension Plans has not been placed on a long-term basis.

A further problem relates to the overall performance of the retirement income system. Primarily as a result of two factors—major gaps in coverage by employer-sponsored pension plans and RRSPs, and a highly uneven distribution of savings—it is estimated that about one-half of Canadian couples and individuals who enjoyed middle-range incomes during their working lives will experience at least a 5% decline in living standards upon retirement; one-third can expect a decline of at least 15%, and one in six a decline of at least 25%. This estimate takes into account major factors for which data are available, including the higher benefits that will emerge as the current pension system matures.

This situation would be improved by the specific reforms to employer-sponsored pension plans discussed in *Better Pensions for Canadians*. It is estimated, however, that even with the reforms discussed, more than one-third would experience at least a 5% decline in living-standards upon retirement, one in five at least a 15% decline and one in ten at least a 25% decline.

A key issue facing Canadians, therefore, is this: is the magnitude of these anticipated declines in living standards for middle-income Canadians a problem requiring government action? In other words, should Canadians be expected to fill these gaps on their own initiative through additional personal saving and private pensions, or does the situation require an expansion of mandatory pension arrangements?

[5] In 1977, the Canadian Parliament passed an amendment to the CPP, allowing a working mother to "drop out" or exclude for pension calculation purposes the low-earning years devoted to raising a child under 7 years of age. Quebec approved the "child-rearing drop-out" credit for the QPP. This provision has not been implemented in the CPP because, until recently, Ontario has withheld consent. Any proposed changes to the CPP must be approved by at least two-thirds of the provinces (excluding Quebec) which, together, have at least two-thirds of the population. Ontario, with over two-thirds of the Canadian population, has in effect a veto over any modifications to the CPP. In mid-May 1983, Ontario finally consented to the inclusion of the credit provision in the CPP. Ontario's consent clears the way for the enactment and implementation of this provision.

Highlights of Proposals for Reform

The Government of Canada is putting forward for public discussion a number of reform proposals based on the three principles noted above.

Specific proposals are put forward in considerable detail to encourage employers, employees, actuaries—and, indeed, all interested Canadians—to review the benefits and costs involved. This open discussion and debate is designed to ensure a broad consensus on the reforms to be undertaken and to provide an opportunity for Canadians to make specific suggestions for improvements.

Elderly Canadians Should be Guaranteed a Reasonable Minimum Income

In line with this principle, the Government of Canada will improve the situation of single pensioners with insufficient income as soon as resources permit.

Opportunities and Arrangements Available to Canadians to Provide for Their Retirement Should be Fair

The Government of Canada is also putting forward for discussion a number of proposals addressing the issue of fairness in the accumulation of pension assets:

- Federal and provincial legislation regulating employer-sponsored plans could be strengthened to require employers to provide better protection against inflation for pensions now being paid, deferred pensions, and credits earned by current plan members. The excess interest method merits serious consideration.[6]
- Pension benefits could be "vested" after no more than two years on the job, rather than the current typical requirement of ten years of service. In other words, employees would have a right to benefits arising from the employer's contributions as well as their own much sooner.
- Employers could be required to pay for at least half of the vested benefit earned by an employee who leaves his or her job.
- A new tax-assisted vehicle for retirement saving, called a Registered Pension Account (RPA), could be introduced to help make pension assets truly portable.

[6] The Green Paper suggests that private pensions be indexed to an inflation-adjustment factor. The index would equal the difference between a base rate (the minimum rate of return that pension funds would earn in an inflation-free economy—estimated by the government to be 3.5 percent) and a guide rate (the average yield on long-term Canada bonds over the most recent 5 years). This difference is referred to as "excess interest." If the adjustment turned out to be higher than the increase in the Consumer Price Index (CPI), a "cap" would be applied and the excess would be "banked" to pay for increases during periods when the adjustment factor fell short of the increase of the CPI.

- Employers could be allowed to contribute to an employee's Registered Pension Account, thereby making it easier for small businesses to provide pension benefits.
- More equitable access to tax-assisted retirement savings could be instituted through reform of contribution and benefit limits. New limits could provide greater flexibility, particularly for spousal plans, for individuals who are late in starting to save for their retirement, and for those with fluctuating earnings. Details of proposals in this area will be the subject of a forthcoming discussion paper.
- The protection of spouses could be enhanced substantially through splitting pension credits between spouses upon marriage breakdown; by requiring that pensions and life annuities from employer-sponsored plans be in the form of a joint and last survivor annuity (except by mutual agreement to do otherwise) which guarantees a survivor at least 60% of the initial benefit after retirement and the transfer of the full value of the earned credits prior to retirement; and by continuing survivor pensions upon remarriage of the recipient.
- Plan sponsors could be required to cover all employees with essentially one plan.
- Plan members could be better protected in case of plan termination through a plan termination insurance scheme and/or a stronger call on the firm's assets.

In addition to these proposals for improving the fairness of employer-sponsored pension plans and tax-assisted retirement saving, a number of possible changes to the Canada Pension Plan could be considered:

- The return of maximum pensionable earnings to the intended level of the average industrial wage could be speeded up so that this is achieved over a three year period.
- The Government of Canada will vigorously pursue implementation of the child-rearing drop-out provision with the Government of Ontario.
- Spouses could be given equal protection by extending credit-splitting, now available only at divorce, to apply when spouses have been separated for more than three years. As well, credit splitting could be provided when the younger spouse reaches age 65, when either spouse dies, or when the spouse of the wage earner becomes disabled.
- Current benefits for surviving spouses over age 65 could be replaced by a lifetime continuing pension equal to 60% of a deceased spouse's retirement pension earned to date. In combination with the splitting proposals, survivors would have benefits equal to 80% of the previous CPP income.
- Survivor benefits could be extended so that they no longer end upon remarriage.
- The cap on combined retirement and survivor pensions could be removed.
- Changes to the benefits for survivors under age 65 also could be considered. One possibility is to replace the current benefit structure with a two-part benefit consisting of a 'bridging' benefit and a 'continuing' benefit.

It should be noted that a proposal is already being discussed with the provinces for improvements to CPP disability benefits.

Finally, the Government of Canada will discuss the establishment of a schedule of contribution rates for the CPP so that the financing of the plan is put on a sound, long-term basis.

In order to ensure equity among Canadians, it is important that the pension system, including the Canada and Quebec Pension Plans, remains basically uniform. The Government of Canada will work closely with the provinces to achieve this goal.

Canadians Should be Able to Avoid Serious Disruption of Their Pre-retirement Living Standards Upon Retirement

A major unresolved question is the expansion of mandatory pension plans.

When the Canada and Quebec Pension Plans were established, they were not designed to guarantee, in combination with Old Age Security, that Canadians would be able to maintain their pre-retirement living standards upon retirement; a gap was left to be filled by employer-sponsored plans and individual savings. The proposals outlined above would considerably narrow that gap in practice, at least for individuals who belong to employer-sponsored pension plans. Workers would no longer lose credits because they switch employers; pensions would not risk serious erosion because of inflation; spouses would receive a fair share of the pension income of the couple; and women would receive higher pensions from public and private plans.

But would these improvements be sufficient? Is it reasonable to expect Canadians to fill the remaining gap with additional voluntary saving, or should the gap be filled in whole or in part by an expansion of mandatory pension arrangements? That is the fundamental question the government invites all Canadians and the Parliamentary Committee to address.

There is clearly no consensus among Canadians on these issues. The Governments of Ontario and British Columbia—as well as nine business organizations which issued the "Business Consensus on Pension Reform" in August 1982—have suggested that no expansion of mandatory pensions is required at this time. On the other hand, the Canadian Labour Congress and the National Action Committee on the Status of Women have recently called for an increase in the size of the Canada and Quebec Pension Plans. In spite of these many and often conflicting views, the Government of Canada is convinced that most Canadians do not want their governments to force them to have pensions and savings arrangements to guarantee 100% maintenance of preretirement living standards. An appropriate balance between mandatory programs and voluntary arrangements must be maintained—a balance in which employer-sponsored pension plans and individual savings continue to play an essential role.

Costs

The Government of Canada is sensitive to the costs and other burdens of major reform to Canada's retirement income system. These increased costs would be in addition to the contributions required to pay for benefits currently promised by the CPP and QPP, which will have to rise from the current 3.6% to the 8-10% range by the year 2030.

The specific improvements in employer-sponsored pension plans outlined above would result in increased costs. Overall, reform of employer-sponsored pension plans could increase combined employer-employee current service costs in typical cases by about 1.5-2.5% of covered payroll; pension cost increases in aggregate could be about 1% of total labour income. The average member of a pension plan would likely see a decline in take-home pay in the order of $110 to $140 a year.

The specific changes in the Canada and Quebec Pension Plans described above (credit-splitting, the child-rearing drop-out provision, and disability and survivor benefit improvements) could raise the contribution rate by 1.3% of contributory earnings in the long run, split equally between employers and employees. This would represent an additional 0.7% of total labour income. Take-home pay would, for average employees, decline by some $80 a year.

In the aggregate, the financial impact of the pension reform proposals on inflation, unemployment, capital markets and Canada's competitive position would not be inordinately large—aggregate savings could increase by about $2 billion. This, however, is not large in comparison with savings in the economy overall. The total cost of the possible changes in employer-sponsored plans outlined above and the Canada and Quebec Pension Plans would be some 1.7% of total labour income in the long run. These cost increases would occur gradually over a period of years. If necessary, reforms could be phased-in.

The cost of any expansion of mandatory arrangements would be additional and would vary with the size and timing of expansion.

Benefits

The pension reform proposals, which the Government of Canada is putting forward for discussion and debate, would benefit almost all Canadians. Retirement income for many pensioners and survivors would increase in the future. The benefits produced by the reformed pension system would be directed into the hands of those now treated unfairly: workers who change jobs frequently; spouses of pension plan contributors, particularly survivors; part-time workers; and pensioners who belong to plans which do not adequately protect benefits from inflation.

The introduction of the RPA and new comprehensive limits on tax assistance could help many more individuals and couples to save for retirement. The self-employed and those who drop out of the labour force for a period of time, notably women, would be able to derive particular benefit.

Women could expect to gain from all these changes, as well as through the splitting of Canada and Quebec Pension Plan credits, improved survivor benefits, and the implementation of the child-rearing drop-out provision. The recognition in the Canada and Quebec Pension Plans that pensions are joint family assets would give protection to homemakers.

Conclusion

Shortcomings in the Canadian retirement income system have received considerable study during the last several years. A public consensus, however, has not yet been formed on specific reform measures. This situation has arisen in part because of the generality of the public debate; insufficient attention has been given to the impact of specific proposals on specific pension plans. A major drawback of the pension reform process to date has been this lack of concrete discussion. To remedy this, the Government of Canada is putting forward specific proposals for reform of the retirement income system. These proposals will provide a basis for the kind of serious discussions of pension reform required. Much is at stake for millions of individual Canadians, for thousands of employers in the public and private sectors, and for the health of the economy as a whole.

In order to obtain the views of the public at large and all interested parties on the proposals for pension reform put forward in *Better Pensions for Canadians*, the Government will ask the House of Commons to establish a Committee, comprised of members from all parties, to hold hearings throughout Canada. This Committee will be asked to report its findings and recommendations by December 31, 1983, on the reforms the Government of Canada should pursue.

The Government of Canada invites provincial governments, business, labour, women's groups and other interested parties to work together so that Canadians may look to the future with increased confidence that they will find security, dignity and fulfillment in retirement.