



RON GRAHAM AND ASSOCIATES
100, 10585 - 111 Street, Edmonton, Alberta T5H 3E8
Telephone (780) 429-6775 Facsimile (780) 424-0004
rgraham@rgafinancial.com

Will Canada's Pension Plan Be There For You?

Canada Pension Plan sustainable for 75 years and beyond, thanks to Paul Martin's measures

February 07, 2008

BETH MARLIN
SPECIAL TO THE STAR

Relax. There's no reason to worry about your CPP during these volatile days of wildly fluctuating stock markets and the subprime mortgage crisis.

The CPP is in the safe hands – its \$121.3 billion carefully vested on behalf of 17 million working and retired Canadians and for generations to come.

But that wasn't always the case.

Canadians have former prime minister Paul Martin to thank for the restored viability of the country's state-administered pension plan, says Bill Robson, president and CEO of the C.D. Howe Institute.

"He's (Martin's) never been properly recognized for this," says Robson. "The reforms have worked very well so far."

In 1996, the CPP was headed for certain disaster, taking in only \$11 billion in contributions that year, while paying out a whopping \$17 billion in benefits. With large numbers of aging baby boomers set to retire by 2011, actuaries projected Canada's pay-as-you-go fund would be unable to fully pay benefits by 2015.

It was Martin who had the prescience and political fortitude to launch revolutionary CPP reforms – dramatically increasing contribution rates, reducing some benefits and separating CPP monies away from government assets for investment by an independent board – and who was able to commandeer the necessary co-operation of most provinces. Parliament passed new legislation in late 1997 that took effect in 1998. Quebec has

opted to administer its own pension plan, which has not fared as well financially as the CPP.

Since 1997, CPP contributions have gradually increased by 80 per cent, from 5.6 per cent of earnings to a maximum 9.9 per cent, shared equally by employees and their employers.

In 2008, working Canadians and their employers will pay a shared CPP levy of up to 9.9 per cent on earned income up to \$44,900, with employees paying a maximum annual levy of \$2,049.30 after a personal exemption of \$3,500, an amount matched by their employers. Self-employed Canadians must contribute the full levy to a maximum of \$4,098.60.

"Canadians have no need to worry," says Ian Dale, a spokesperson for the Canada Pension Plan Investment Board, the Toronto-based arms' length agency set up in 1998 to administer the fund independent of political interference.

"The Canada Pension Plan is sustainable for 75 years and beyond, according to the (federal government's) chief actuary. There are all kinds of safeguards in place to make sure these funds are there to pass to pensioners and for investing the fund only for their benefit."

The CPP contribution rate has been capped at 9.9 per cent, with no further increases expected for 75 years, says Dale.

"(The CPP) is self-sustaining at 9.9 per cent of earned income."

In fact, benefits paid out by the CPP are fully funded by incoming contributions, leaving invested funds untouched, until the year 2020.

Further amendments introduced by Bill C-36, which came into force on Jan. 1, 2008, assumes steady-state financing, rather than the prior pay-as-you-go funding to build a reserve equivalent to 58 years of benefit payouts. This pre-funding of the plan by soon-to-retire boomers will ease the burden on upcoming generations, says Dale, noting that the legislative amendments require that any new or increased benefits must also be fully funded.

More importantly, perhaps, Martin's reforms ensured the CPP monies were separated from government assets and managed by an independent investment board.

That means the federal government cannot be tempted to borrow from surplus funds, for instance, as it has done from surplus revenue collected

through Employment Insurance premiums or as governments in other countries have done with national pension funds.

As of January 2008, the maximum Canada Pension Plan benefit to someone aged 65 is \$884.58. The basic Old Age Security, paid to people 65 years of age and over, will remain unchanged at \$502.31 per month.

Guaranteed income supplement for eligible low-income pensioners is \$634.02.

While the troubled, stubbornly independent Quebec Pension Plan may well be praying for a financial bailout from the separately managed CPP, as suggested by pundits in recent news reports, the federal reforms mean that is as likely to happen as amending the Constitution – requiring the agreement of two-thirds of 10 provinces, constituting two-thirds of Canada's population.

However, Robson says Canadians must remain vigilant to ensure the monies vested with the CPP don't become politicized.

One of the reasons the Quebec Pension Plan is now in financial difficulty and may not be sustainable at the 9.9 per cent contribution rate, is the province has unwisely used some pension funds to invest in its industrial policy. So far, the CPPIB has made great strides from 1999, when all extra CPP funds were invested only in federal and provincial bonds, earning a steady, but unexciting rate of return significantly lower than returns of stock market indices.

Today, more than half of the fund – 56.5 per cent or \$68.5 billion – is invested in stocks of more than 1,900 international and 700 Canadian publicly listed companies, with other investment in private equities, real estate and inflation-linked bonds. For more information on the CPP, go to www.cppib.ca, the website of the Canada Pension Plan Investment Board.