



## RETIREMENT SECURITY

LET'S MAKE IT WORK *for everyone*

# Retirement security reform #1 - Double CPP Benefits

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We propose a doubling of the Canada Pension Plan (CPP) benefits to ensure a better minimum pension for all Canadians. This would be financed through a modest and gradual increase in contributions over seven years, following the pattern set by CPP reforms in the 1990s.

Our plan is endorsed by Bernard Dussault, who was the Chief Actuary of the CPP and Old Age Security program from 1992 to 1997.

Currently workers and employers pay 4.95% of salary into the CPP (up to a current “Yearly Maximum Pensionable Earnings” limit of \$46,300 per year). Following our seven-year plan, CPP contributions would gradually increase to 7.8% of salary for workers and employers.

These increased contributions would effectively double the average earnings replaced by CPP pension benefits, to a maximum (in 2009 dollars) of \$1,635 per month.

Some might be surprised that an extra 3% of salary can finance a doubling of CPP pension benefits. This is because the CPP structure is so cost-efficient, it is possible to achieve more with less. CPP reform offers much more than “fend for yourself” options like RRSPs.

Our plan would also accommodate low-income Canadians by doubling the current yearly income exemption on CPP contributions (to \$7000).

Our plan offers a better minimum pension to everyone. CPP benefits are indexed, secure, and portable across jobs. Workers wouldn't fear losing their pensions given the misdeeds of Bay Street and Wall Street.

This reform will benefit younger workers most, as they would pay higher CPP contributions through more of their worklife. That's why our plan for the CPP is about preparing for the future, so the next generation of workers can count on a dignified retirement.

## How our CPP Plan Would Work:

**We propose a doubling of the Canada Pension Plan benefits on a pre-funded basis.**

**The costs here are modest:** As Bernard Dussault confirms, future CPP benefits can be doubled if current CPP premiums are increased by roughly half (an additional 3% of salary for workers and employers). This modest increase offers a huge boost because of the CPP's size and economies of scale.

**How this increase would be phased in:** This would be phased in over a seven-year period like CPP reforms in the 1990s.

**Low-income workers would be accommodated:** To reduce the impact of this increase on low-income workers, we also propose doubling the current "Year's Basic Exemption" threshold that allows low-income workers to earn income without paying CPP premiums (to \$7,000 per year from \$3,500 per year). The results of our CPP plan are impressive: Our plan would effectively double the average earnings replaced by CPP pension benefits, to a maximum (in current dollars) of \$1,635 per month.

## Why This is a Good Idea

**Canadians would have more pension security:** They would no longer fear losing their pension savings to higher inflation, stock market shenanigans, or the loss of employment.

**This is a pan-Canadian solution to a pan-Canadian problem:** Some provinces have suggested their own solutions to address pension concerns, but these initiatives won't suffice. Worker mobility between provinces is a major concern, and the CPP's scope is capable of dealing with this issue. The CPP's framework can't be matched by any provincial or regional solution.

**This prepares us for the future:** Young and future workers would benefit the most from CPP expansion given they would make more CPP contributions at a higher rate. In this way, expanding the CPP is about preparing for the future, and leaving behind a better system for our kids.

## Can we afford to do this?

**Yes. In fact, we can't afford not to do this.** If we don't expand the CPP, the cost of widespread poverty in retirement will be far worse. We either pay modestly now or pay far

more later. Remember, many big business lobbyists claimed the sky would fall when CPP premiums were increased in the 1990s, and it didn't. Ignoring the fearmongers was the right move then, and it's the right move now.

## Won't this hurt low-income workers and small business?

**No. Leaving in place an insecure and inadequate pension system is far more damaging.** Low-income workers will be accommodated through a higher limit on income that is exempt from CPP premiums, and small business will be helped by customers with more to disposable income to spend in retirement.

Also, there is no RRSP available for small business owners to purchase that can match the CPP. The CPP is an affordable, inflation-protected, portable, defined benefit pension plan that offers real pension security. Small business owners will benefit personally from an expanded CPP, and they will also be able to retain employees through this enhanced pension coverage.

## I don't want higher CPP premiums on top of what I currently pay into my workplace pension.

Because the vast majority of workplace pensions are "integrated" with CPP benefits, any increase to CPP premiums means you're paying less into your workplace plan.

The result: you get the same pension income, just more of it from the CPP. And remember, the CPP is far more secure than many workplace pensions. Among other things, it is indexed to inflation, portable across jobs, and generous for years of "low earnings".

Also, because workplace pensions will be paying out less under an expanded CPP, money could be available to improve workplace pension benefits (or other aspects of compensation). In other words, an expanded CPP improves the position of unions at the bargaining table.