



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

Office of the Chief Actuary

Bureau de l'actuaire en chef

# The Canadian Response to the Evolution of the Retirement Security Net

*Presentation to the Northwind Professional Institute  
Langdon Hall, Cambridge*



OSFI  
BSIF

27 October 2005

Canada 

# Presentation

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- Mandate of the Office of the Chief Actuary
- Canadian Income Retirement System
- Canadian and Global Aging
- CPP Steady-state Funding
- Framework of an Efficient Retirement System

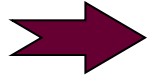
# Canadian Retirement Security

**Canadian retirement system with mixed funding approaches is well recognized in the world for its capacity to adapt rapidly to changing conditions.**

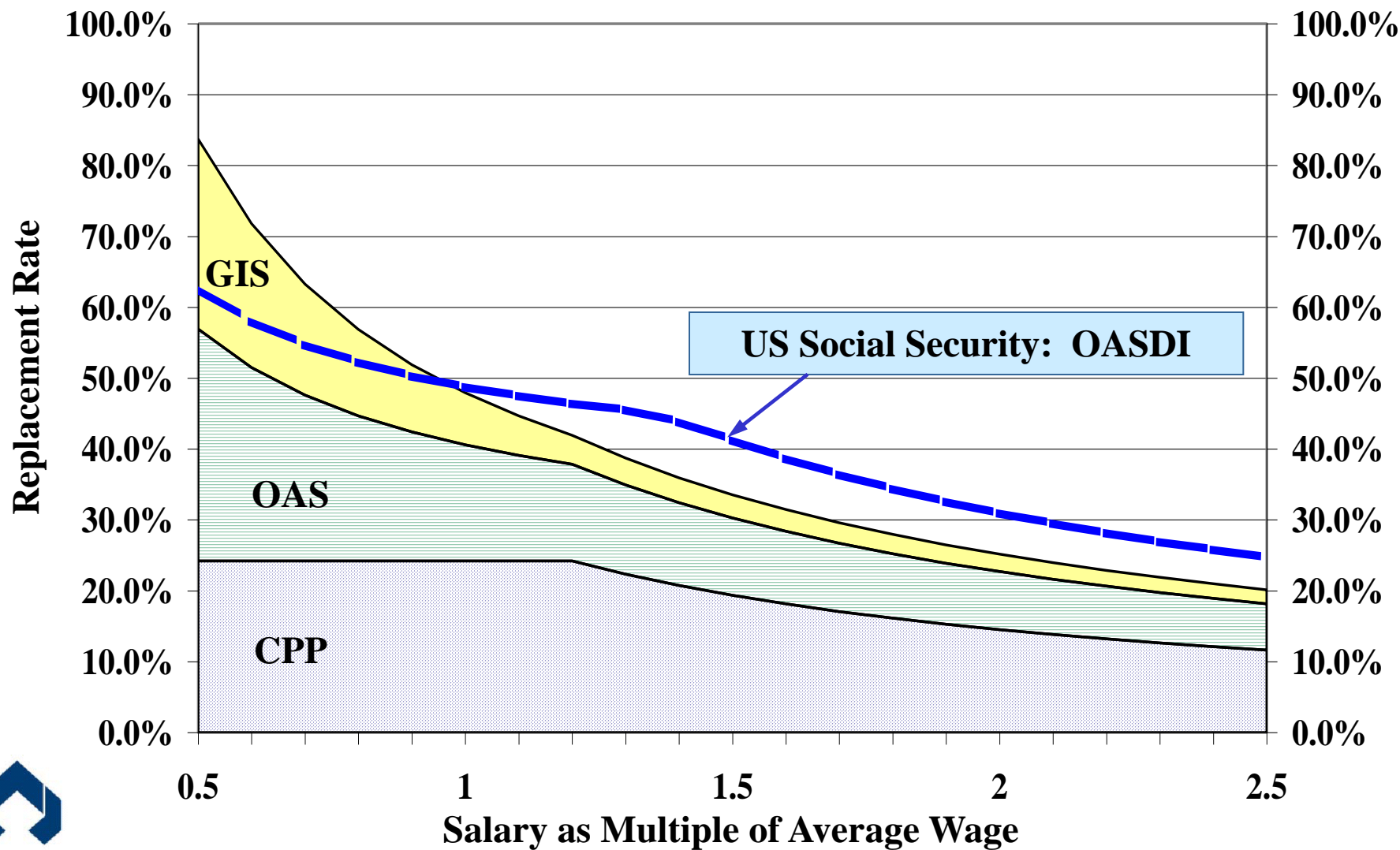
- Full funding (RPP/RRSP)
- Partial funding (CPP/QPP)
- Pay-as-you-go funding (OAS/GIS)



***The Canadian retirement system could be viewed as about 40% to 45% funded.***

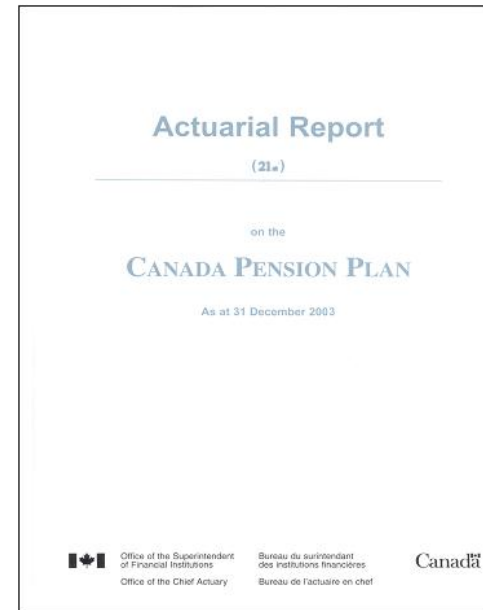


# Income Replacement Rate of Public Pension Plans (Canada and United States, 2002)



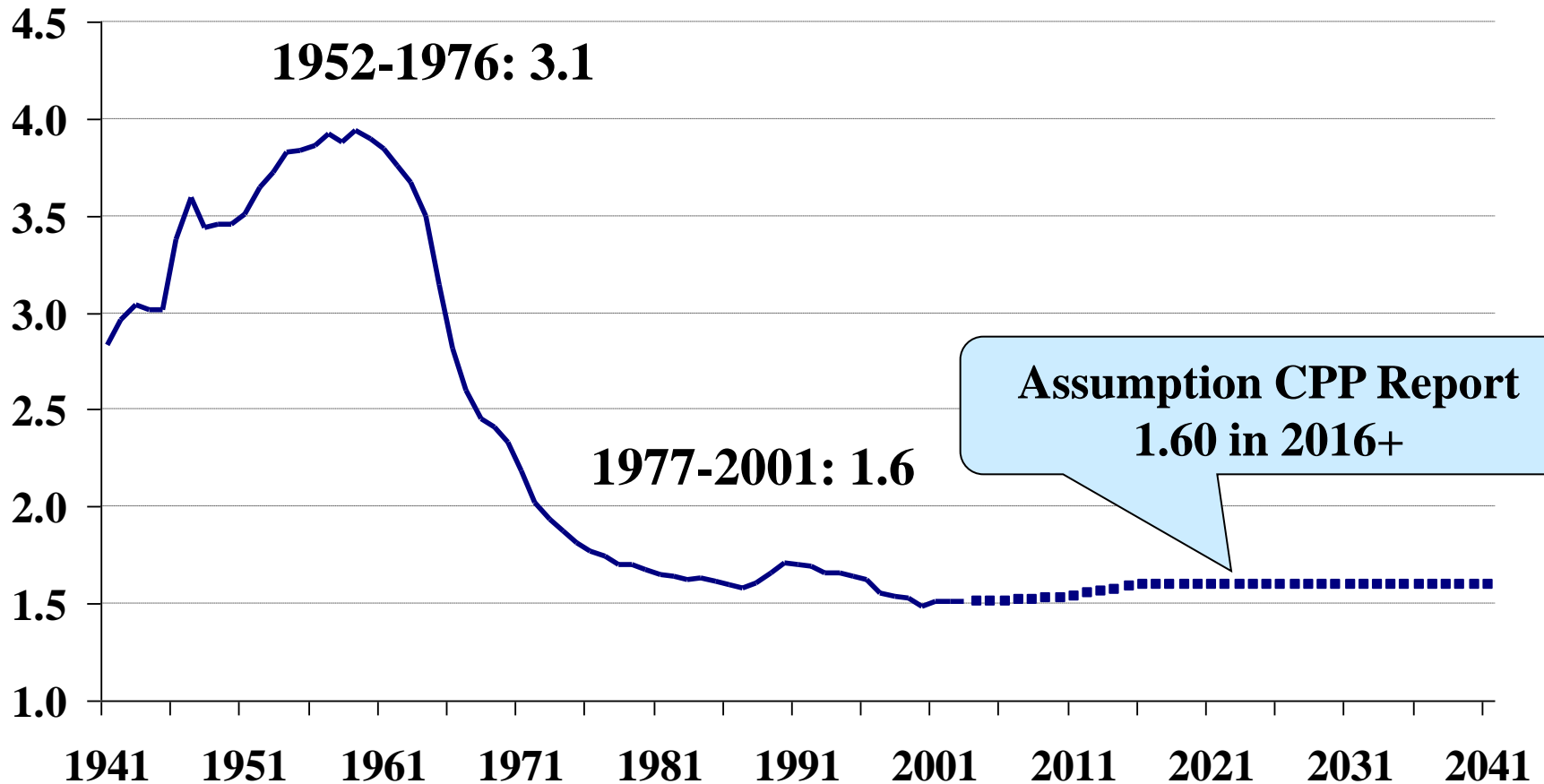
# Purpose of the CPP Actuarial Report

- Inform on the current and projected financial status of the Canada Pension Plan
- Calculate the steady-state contribution rate

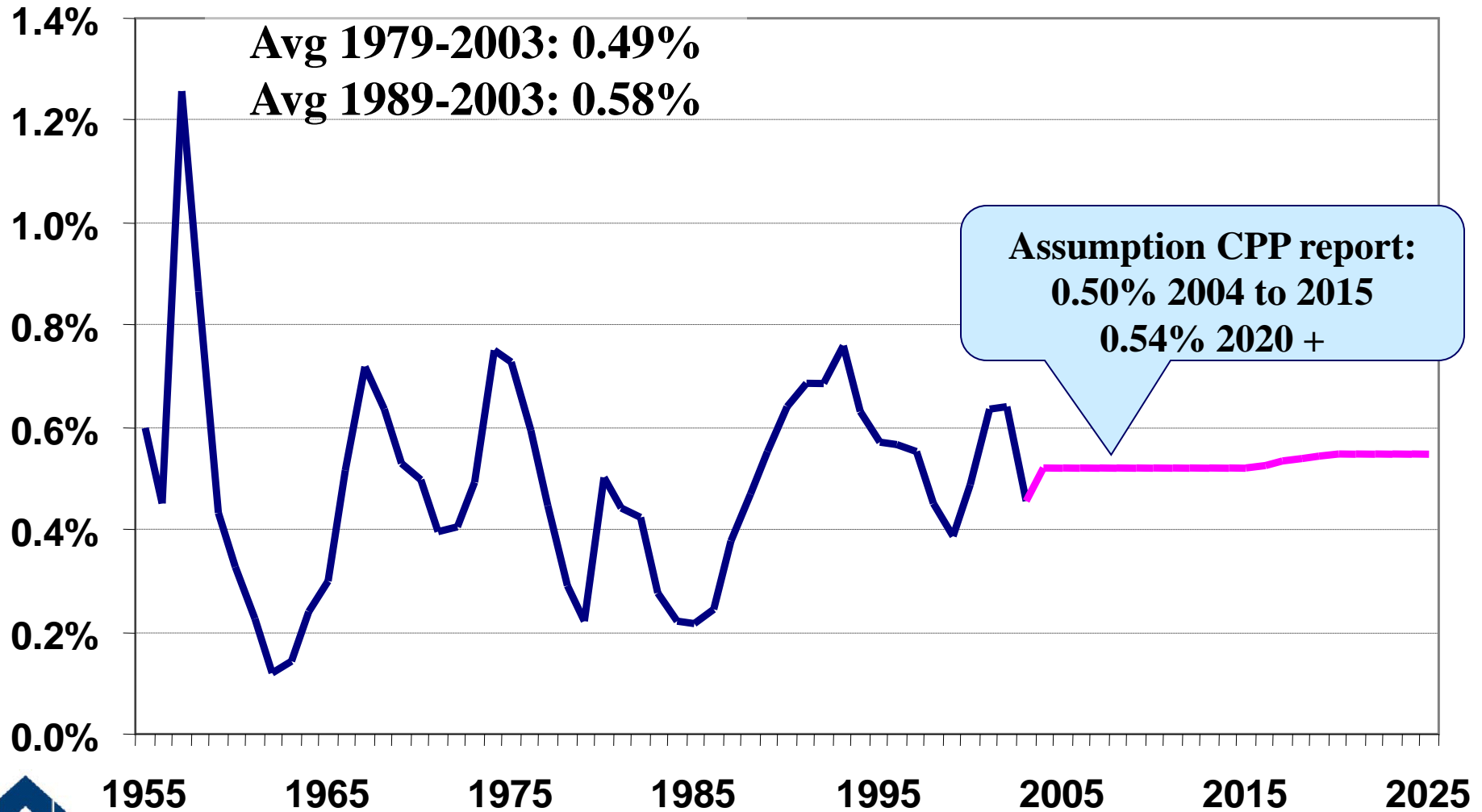


# Fertility Rate

(Children per woman)



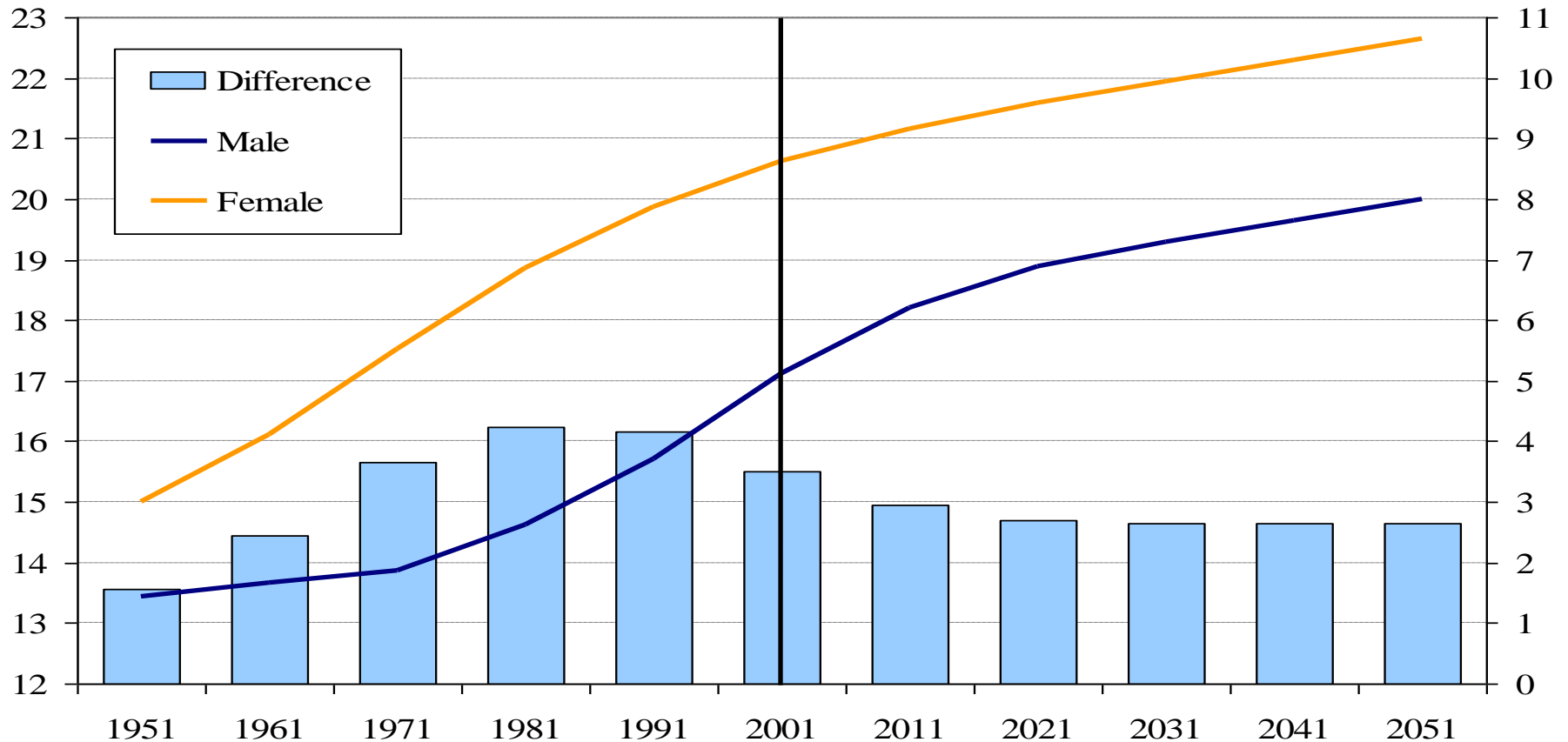
# Net Migration Rate



# Increase in Life Expectancies

Life expectancy at 65

Difference



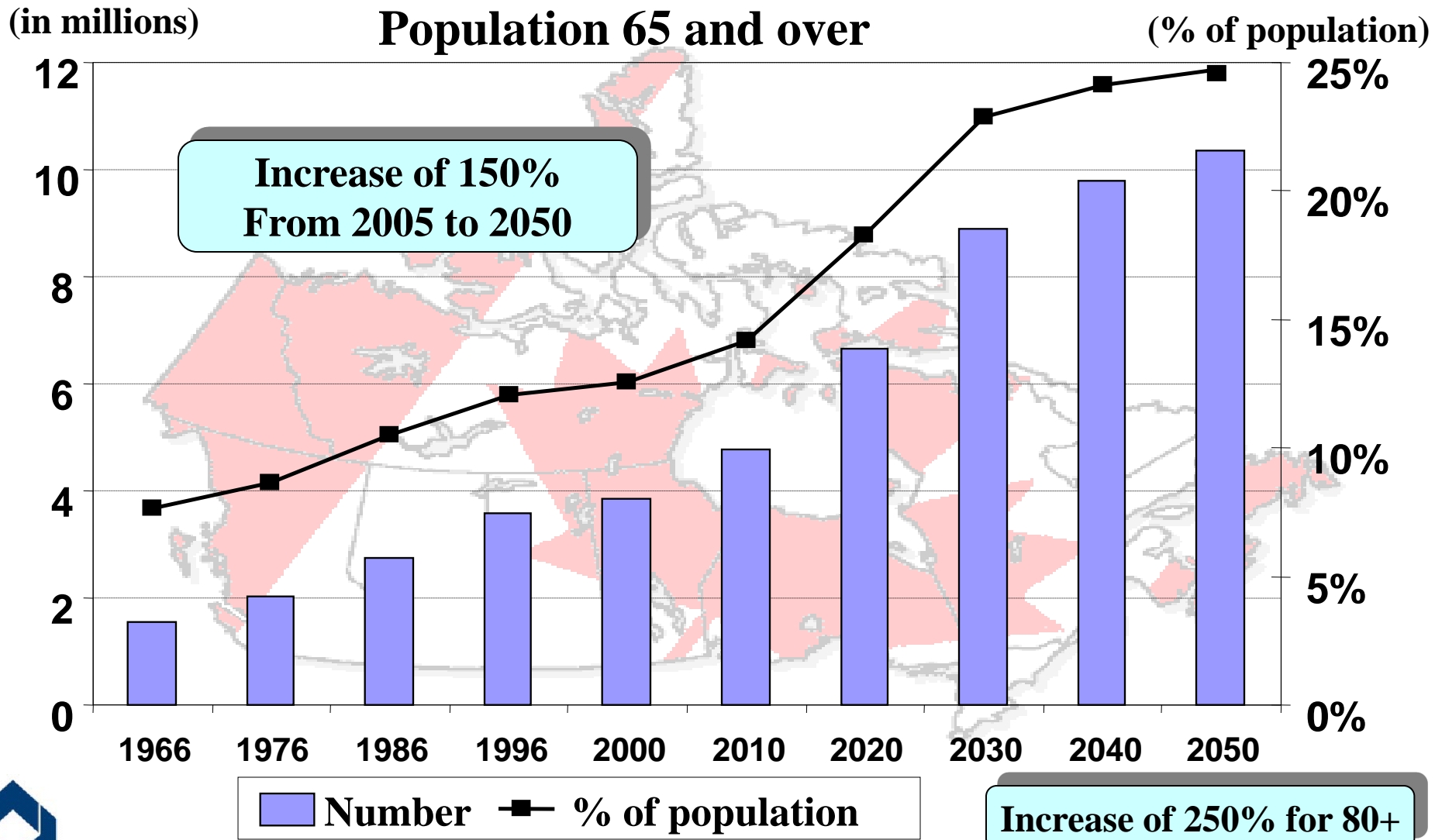
*More contributors are expected to reach the retirement age of 65.*

*Retirement beneficiaries are expected to receive their benefit for a longer period.*



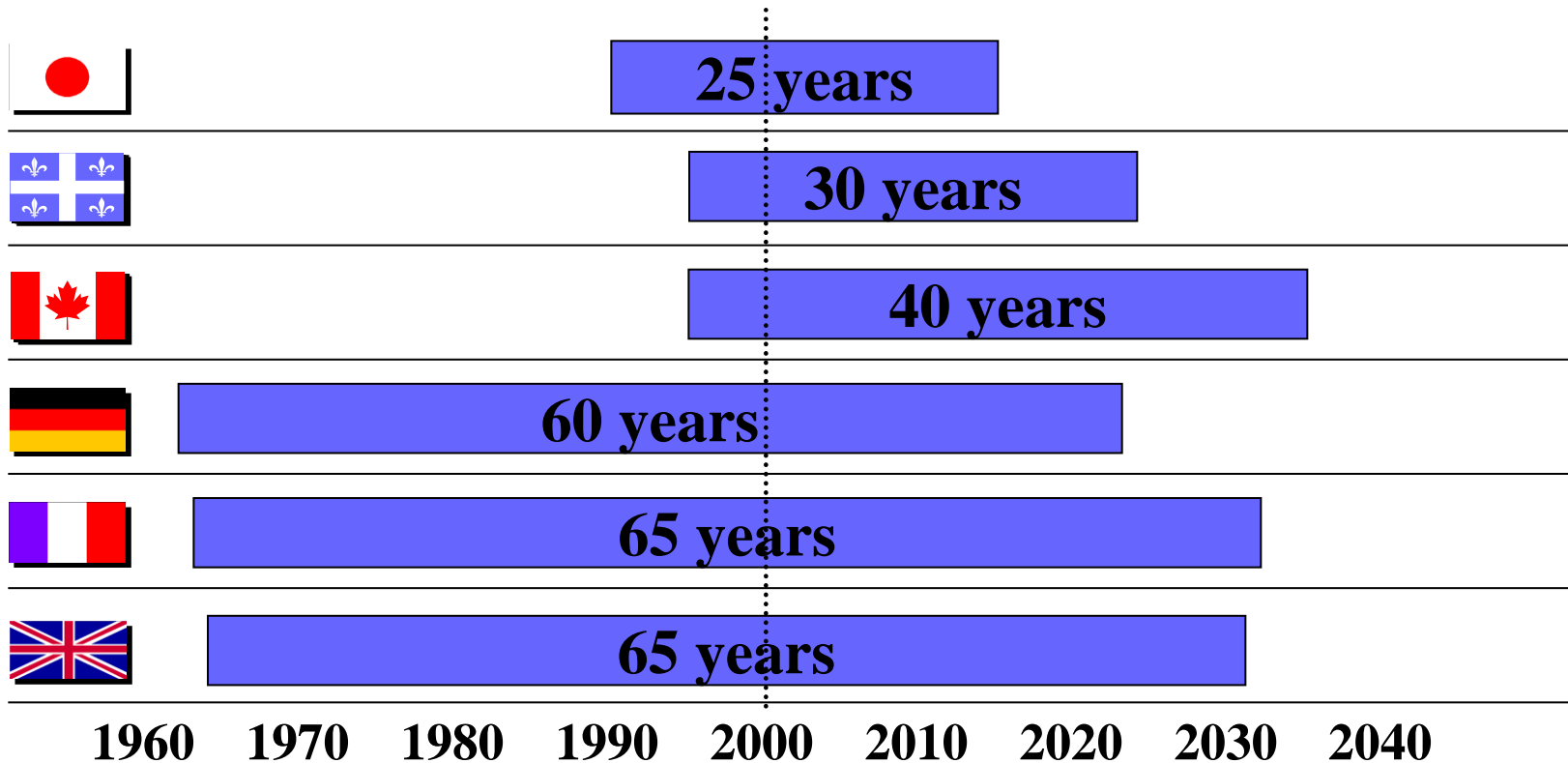


# Canadian Aging

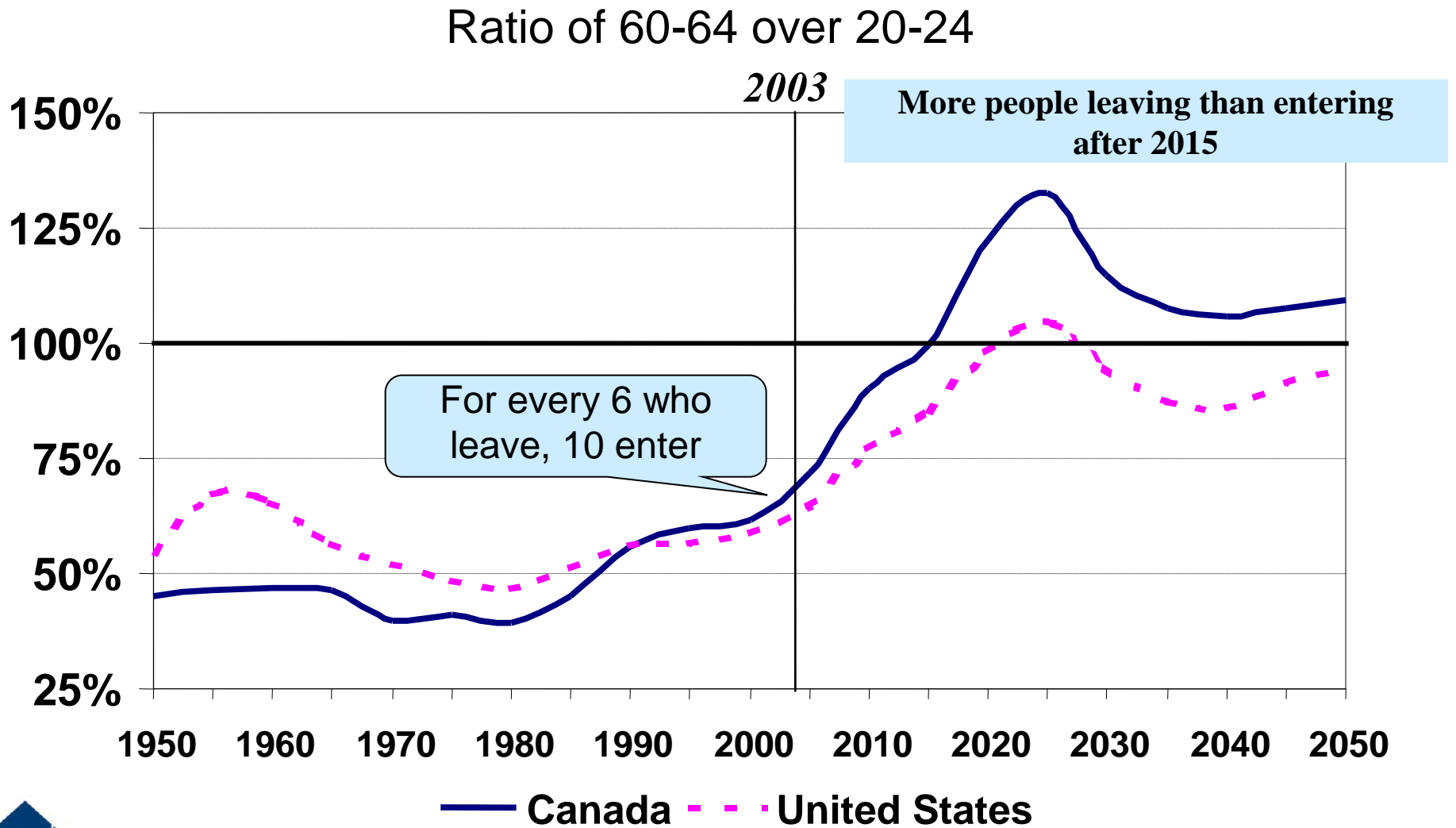


# Global Aging

Projected number of years needed to go from 12% to 24% of 65 and over as a % the total population

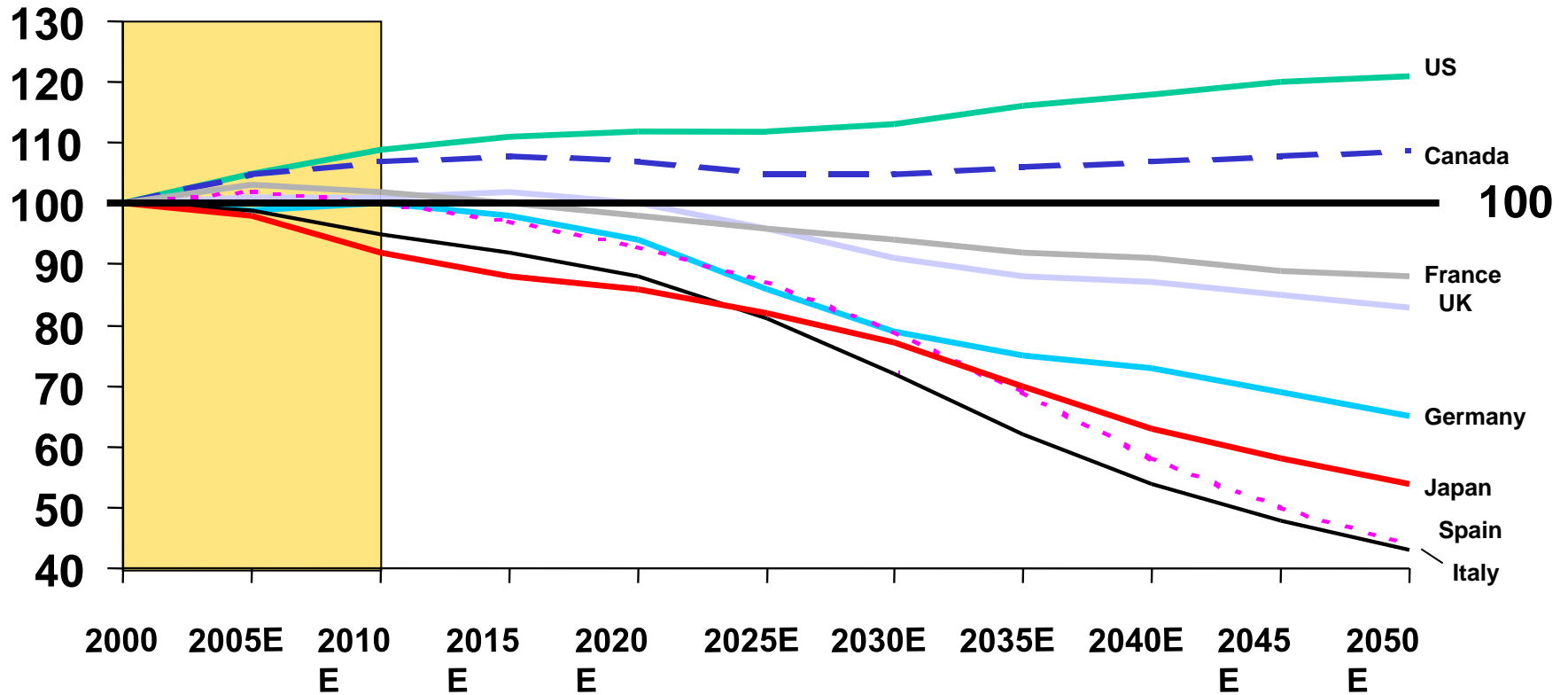


# Future Labour Shortage, likely or not?



Source for US : United Nations Projections, 2003

# Working Age Population (ages 20-60) (indexed 2000=100)



Source: UN World Population Prospects

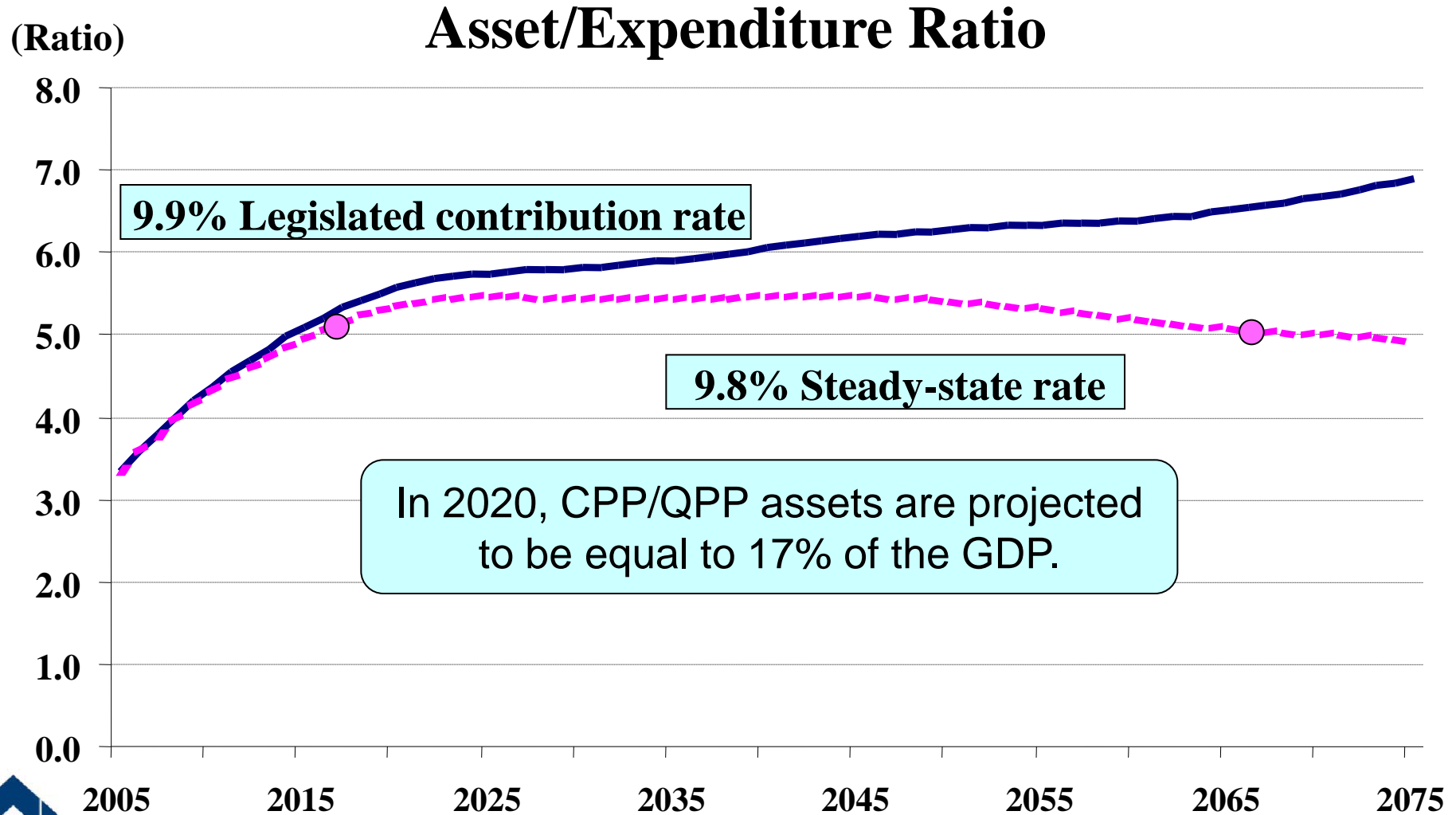
# *How do we position for the aging of the Canadian population? : CPP Steady-State Funding*

## **Effect of the 1998 Amendments**



- Increase the contribution rate by 65% over 6 years (1997-2003) and keep the same rate thereafter
- Moderate the future growth of benefits by 10% on a long-term basis (in 2050).
- Creation of the CPP Investment Board to diversify the CPP reserve fund and increase investment returns  
([www.cppib.ca](http://www.cppib.ca))

# CPP Steady-State Funding



In 2020, CPP/QPP assets are projected to be equal to 17% of the GDP.



# CPP Steady-State Funding

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- The current legislated contribution rate is 9.9%.
- The steady-state contribution rate is 9.8%.
- If the legislated contribution rate is higher than the steady-state rate, the funding status of the plan will increase over time.
- The higher this rate is set above the steady-state rate, the faster the plan will become more funded.

# CPP Steady-State Funding

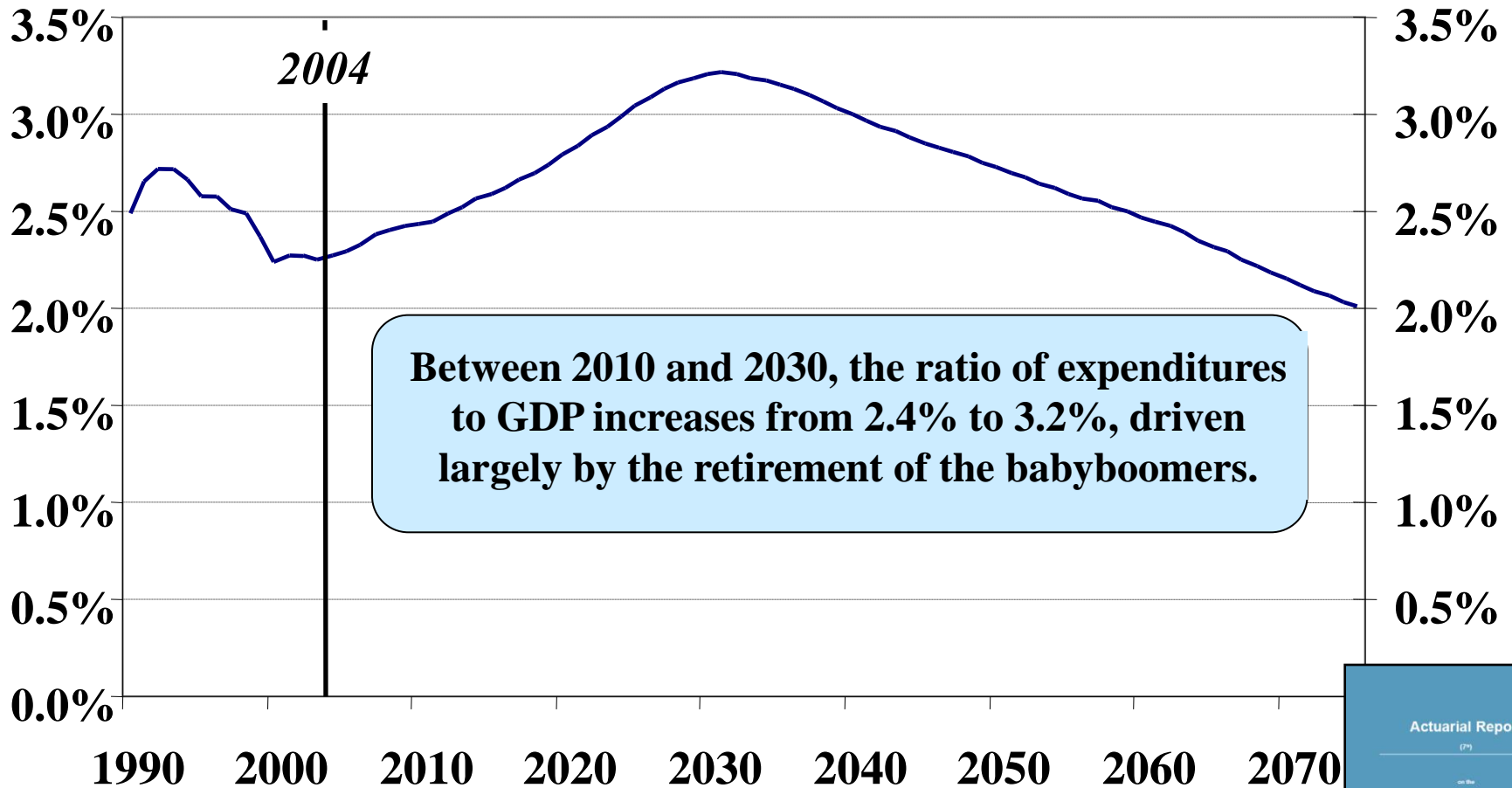
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- If the steady-state rate is higher than the legislated contribution rate AND if finance ministers cannot reach agreement on a solution, then:
  - Contribution rate increased by  $\frac{1}{2}$  of excess over three years, subject to maximum increase of 0.2% per year
  - Benefits frozen
  - At end of three years, next review performed to determine financial status of Plan.



# How do we position for the aging of the Canadian population?

## Evolution of Old Age Security Expenditures in % of GDP



Between 2010 and 2030, the ratio of expenditures to GDP increases from 2.4% to 3.2%, driven largely by the retirement of the baby boomers.

**\$28 billion in 2004; \$37 billion in 2010; \$110 billion in 2030**

Actuarial Report  
(7<sup>th</sup>)

on the  
OLD AGE SECURITY  
PROGRAM

As of 31 December 2003



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# Framework of an Efficient Retirement System

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- Diversification of sources of retirement income ✓
- Diversification of funding approaches ✓
- Reasonable economic cost of public pensions (% of GDP) ✓
- Reduction of poverty among seniors ✓
- Reduction of income inequalities ✓
- Maintenance of standard of living at retirement ✓

