Office of the Superintendent of Financial Institutions Canada
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The Benefit Picture: Current and Future Pressures

The Canada Pension Plan Reforms Ten Years After: Lessons and Prospects

Presentation to the C.D. Howe Institute Policy Conference, Toronto

10 December 2007

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Presentation Outline

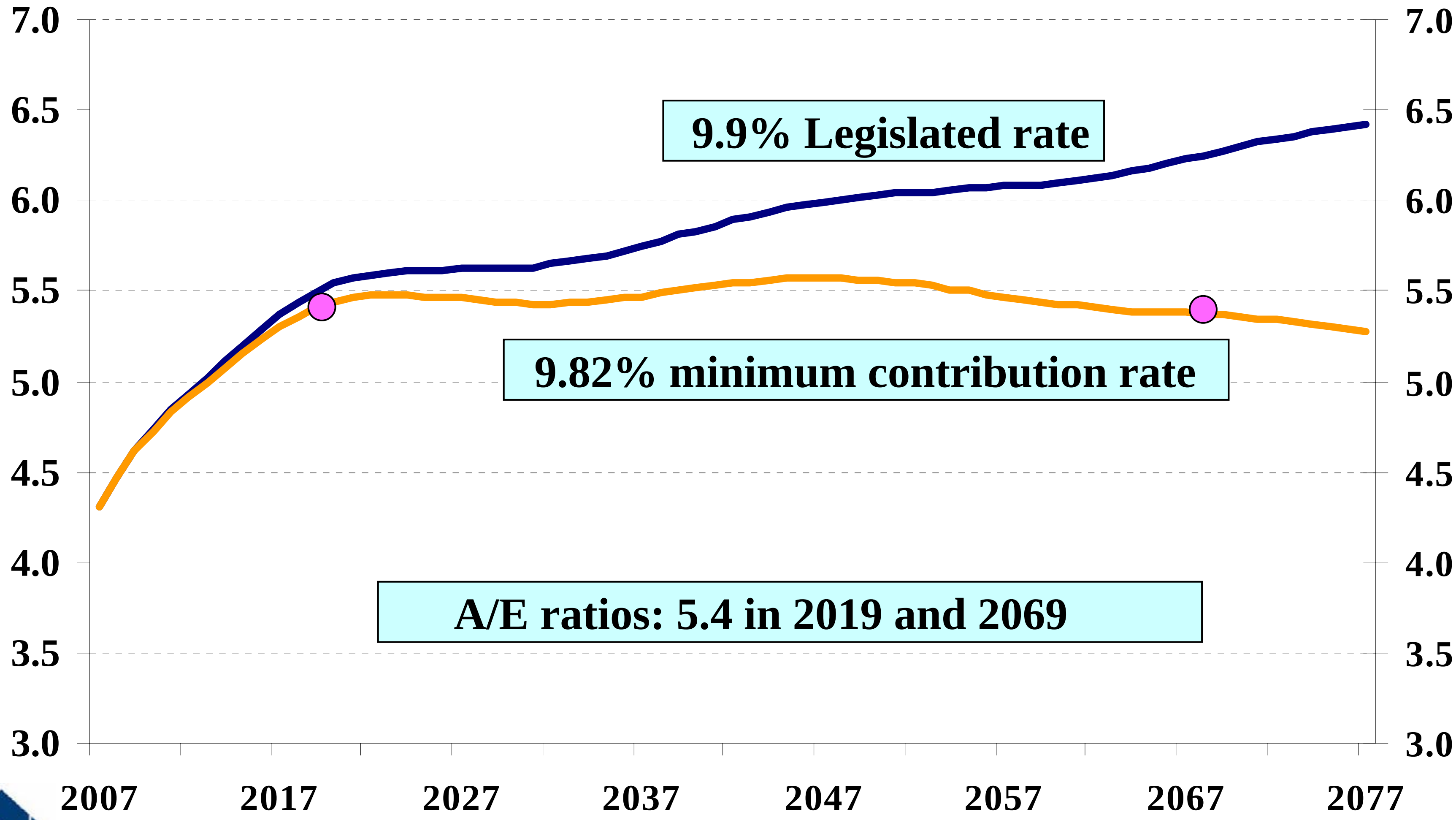
- CPP Financing
- CPP Benefits
- Reconciliation Between Actuarial Reports
- Income Replacement Rates

CPP Financing

- *Steady-state funding*: replaces the original pay-as-you-go financing to build a reserve of assets equivalent over time to about five and a half years of benefit expenditures or about 25% of Plan liabilities.

- *Incremental full funding*: requires that changes to the CPP that increase benefits or add new benefits be fully funded (eg: increase in eligibility for disability benefits for long-term contributors).

Evolution of Asset/Expenditure Ratio



CPP Investment Strategy

- Incur risk and earn an equity risk premium in order to generate investment income that will pay benefits and stabilize the contribution rate
- Peer review of 21st CPP Actuarial Report recommended an ERP of 3.3% as opposed to the OCA assumption of 2%
- Ultimate ERP for 23rd CPP Actuarial Report set at 2.3%
- Must be cautious in setting ERP over 75-year period
  - Overestimating the ERP would lead to a lower MC rate and create pressure to improve benefits and/or lower the contribution rate
  - If the ERP is not realized, this may result in future increases in the contribution rate.

Sustainability of the 9.9% Contribution Rate Under Various Equity Risk Premiums

Equity Risk Premium	**Minimum Contribution Rate**
No Equity Risk Premium 0.0%	10.56%
CPP 23 Best-Estimate ERP 2.3%	9.82%
CPP 21 Peer Review Recommendation 3.3%	9.54%

Life Expectancy
(with future improvements)

For a newborn

	1966	2007	2050	2075
Males	79.0	84.5	87.4	88.8 (+2.0)
Females	83.4	87.7	90.2	91.5 (+1.8)

For a person aged 65

	1966	2007	2050	2075
Males	14.1	19.3	21.9	23.1 (+1.7)
Females	18.5	22.0	24.2	25.4 (+1.3)

Comparison with Previous Report

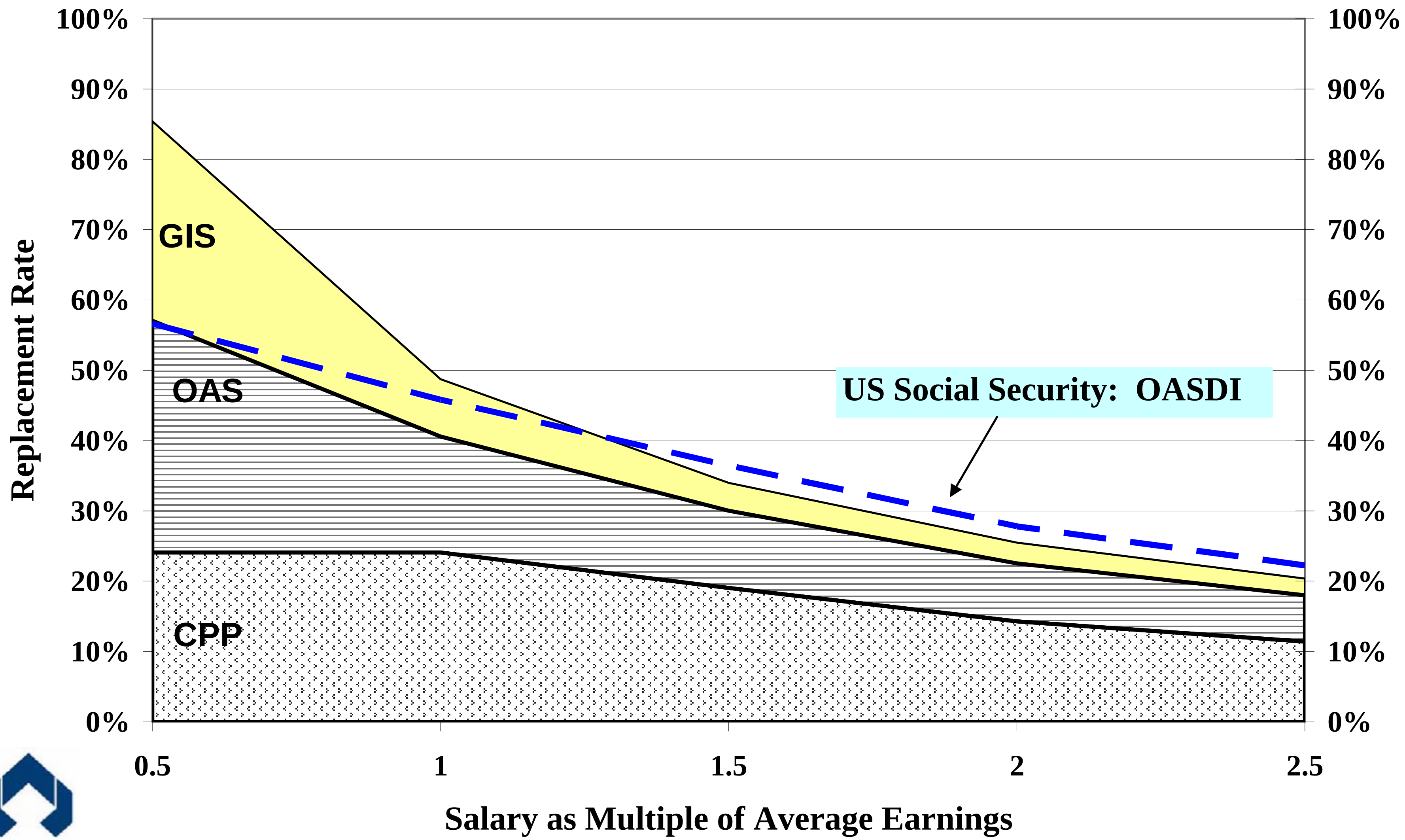
	Minimum Rate
Actuarial Report as at 31 December 2003	9.77
Better investment experience (2004 to 2006)	(0.09)
Higher participation and job creation rates (2004 to 2006)	(0.04)
Contribution rate with no change in assumptions	9.64
Higher projected life expectancies	0.16
More people asking their retirement benefit at age 60	0.05
Others (including Bill C-36)	(0.03)
Report as at 31 December 2006	9.82

Comparison with the 1997 amendments' report

	Minimum Rate
Actuarial Report as at September 1997 (16th Report)	**9.92**
Improvements in Methodology	.02
Experience Updates	-.10
Changes in Assumptions	
Reduction in Mortality Rates	.67
Other Changes in Assumptions	-.66
Plan Amendments	-.02
Change in Funding Targets	-.01
Report as at 31 December 2006 (23rd Report)	**9.82**

The projected life expectancy, assuming future improvements, of a male age 65 in 2050 has increased from 18 to 22 years between the 16th and 23rd Actuarial Report.

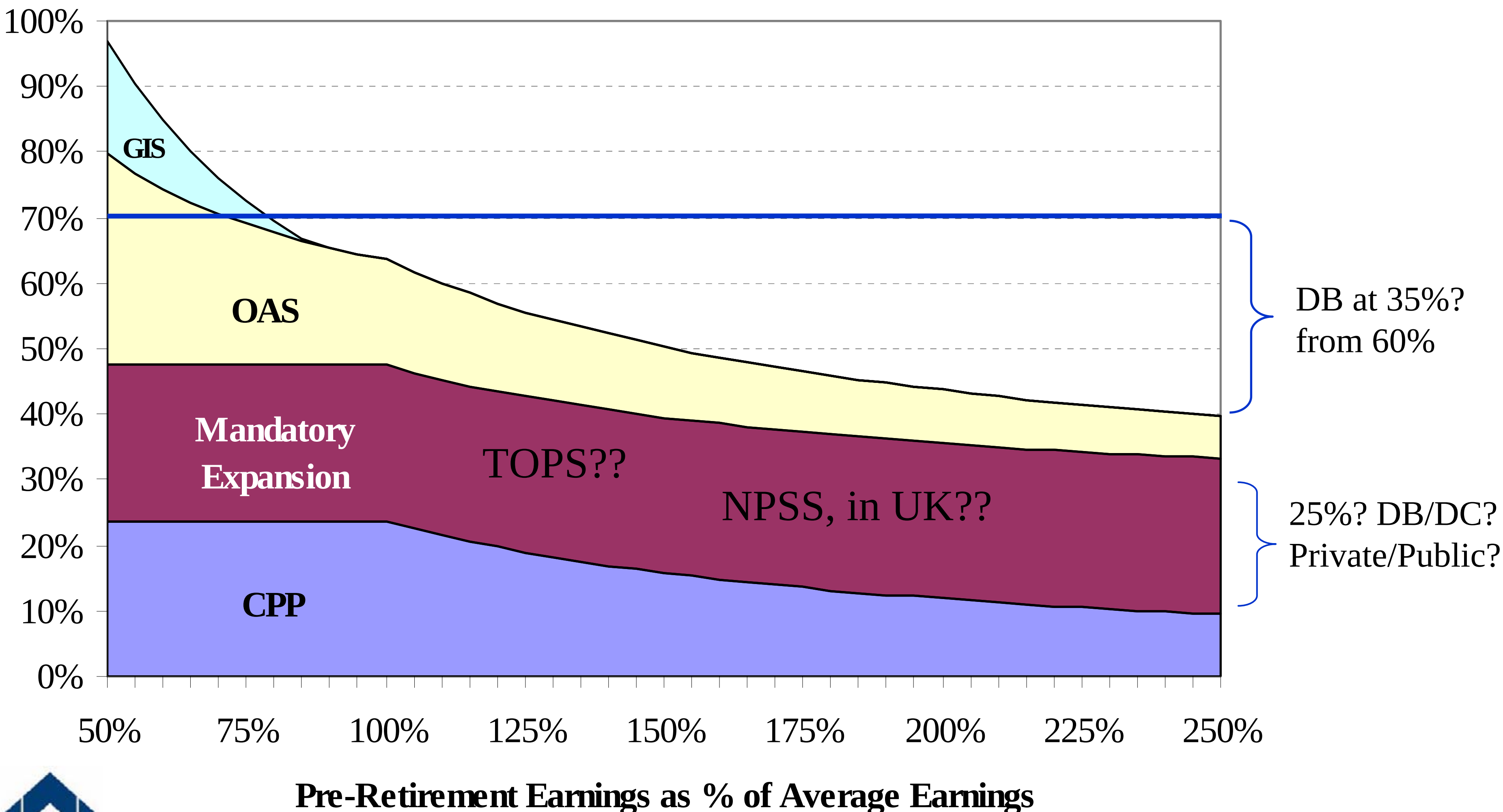
Income Replacement Rate of Public Pension Plans (Canada and United States, 2006)



Mandatory vs Voluntary Pension Plans

- Mandatory Plans: OAS and C/QPP
- Voluntary Plans: Employer Pension Plans and Private Savings (RPP / RRSP)
- Coverage in third tier is low
  - ~ 60% of Cdn workers not covered by RPP in 2003
  - RRSP contribution room remains high and is growing year to year
- Should participation in the third tier be mandated or left voluntary?

Mandatory Expansion - Replacement Ratios



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Thank You

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Financial Status – 1998 to 2006

Actual minus Expected

(in billions of $)

	Contributions	Investment Earnings	Benefits	Assets	
1998 to 2000 (T. 67, p. 121)	+1.2	+0.1	-0.1	+1.4	(+3%)
2001 to 2003 (T.78, p. 122)	+1.7	-1.1	-0.1	+0.7	(+1%)
2004 to 2006 (T.16, p. 38)	+0.1	+15.9	0.0	+16.0	(+16%)
1998 to 2006	+3.0	+14.9	-0.2	+18.1	(+19%)

The CPP assets of $ 36 billion at year-end 1997 were projected to reach $ 96 billion at year-end 2006. The actual value is $ 114 billion.