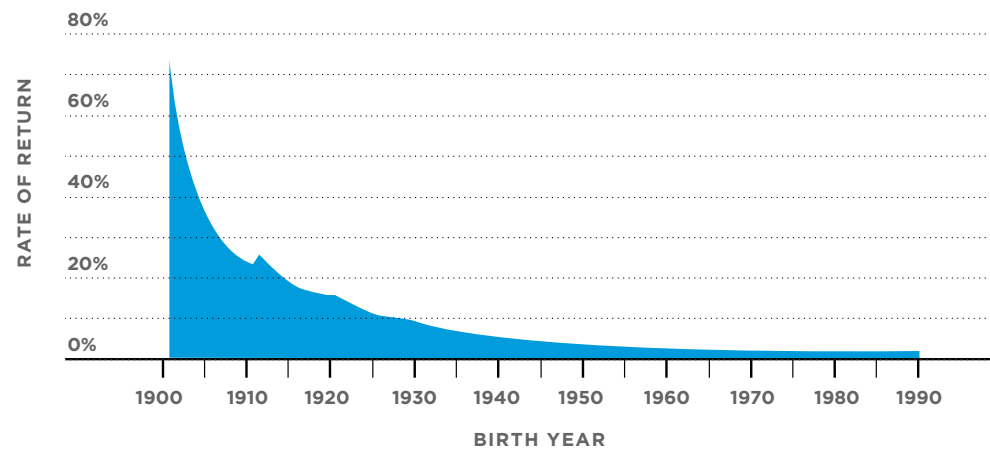


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The rates of return have declined for two main reasons. First, the contributory period in the CPP's early years (10 years) was much less than is the case now (47 years). Second, the total contribution rate has increased from 3.6% when the program was started in 1966 to its current level of 9.9%. While in its current form the CPP is an important component of Canada's overall retirement income system, its proposed expansion cannot be justified on the basis of its rate of return to retirees.

To learn more, read the Fraser Institute study [Rates of Return for the Canada Pension Plan](#)

Canadian workers receive very different rates of return from the CPP depending on when they were born (and retire)



MYTH 5

Expanding the CPP will help financially vulnerable seniors

Finally, Canadians worry about financially vulnerable seniors. Surely expanding the CPP will help them have a more comfortable retirement? Unfortunately, it will not.

To begin with, it is important to understand which group of seniors is most vulnerable. Statistics Canada's "low income cut-off" indicates whether someone is likely to experience difficult financial circumstances. Based on this measure, the share of seniors living in low income has fallen dramatically over the past four decades: from 29.0% in 1976 to 3.7% in 2013.

But some seniors are more susceptible than others to low income. Specifically, single seniors living alone (widows, for example) are much more likely to be in low income than others. In 2013, 10.5% of single seniors living alone were in low income, which is considerably higher than the rate for all seniors (3.7%). A subset of single seniors is at even higher risk of being in low

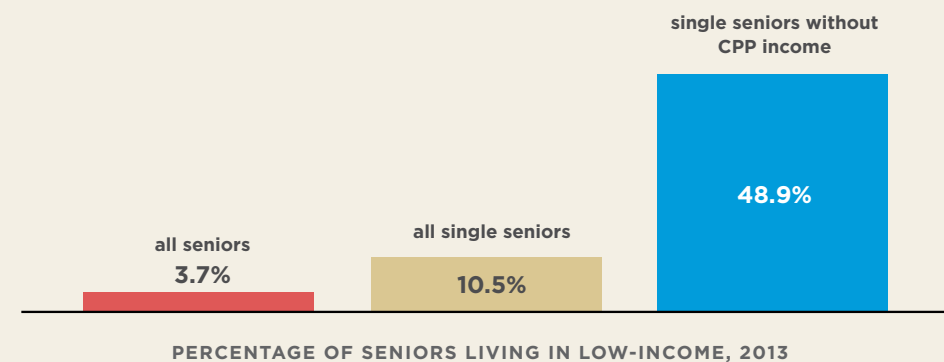
income, namely single seniors living alone without any income from the CPP. Almost half of these single seniors (48.9%) are in low income.

A CPP expansion would do little to help low-income single seniors partly because many have not worked outside the home in their working lives and thus have not earned any labour income—a key determinant of CPP retirement benefits. Those with no work history, and thus no contributions to the CPP, will receive no additional retirement benefits from an expanded CPP.

Even for low-income single seniors with work histories and sufficient contributions to the CPP, expanding the CPP may provide little or no net increase in their retirement income. That's because a higher CPP benefit could simply result in a reduction in federal and provincial government benefits targeted at low-income seniors.

To learn more, read the Fraser Institute study: [Expanding the Canada Pension Plan Will Not Help Canada's Most Financially Vulnerable Seniors](#)

Single seniors living alone are Canada's most financially vulnerable and unlikely to be helped by CPP expansion



Five Myths Behind the Push to Expand the Canada Pension Plan

The federal government and several provinces want to expand the Canada Pension Plan (CPP).

If they do, working Canadians will be contributing more to the CPP. In return, they'll expect higher benefits when they retire. But the arguments favouring CPP expansion are based on some incorrect (or at least, debatable) claims. Here are the five common claims used to argue for CPP expansion—and why they are myths that must be refuted.

MYTH 1

Canadians are not saving enough for retirement

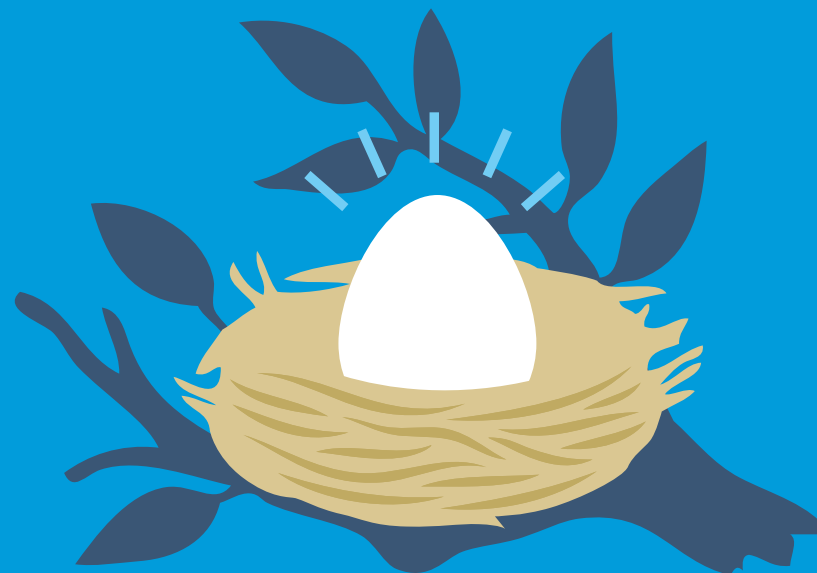
A core argument for expanding the CPP is that Canadians are not currently saving enough for retirement. In fact, most Canadians adequately prepare for retirement—a conclusion reached by a major research working group created by Canada's finance ministers back in 2009.

Analyses to the contrary tend to consider only the savings accumulated in formal pensions such as the Canada and Quebec Pension Plans, Registered Retirement Savings Plans (RRSPs), and Registered Pension Plans (RPPs). In 2014, the assets held in these accounts amounted to \$3.3 trillion.

But Canadians also save in a number of other ways. For instance, in 2014, Canadians held an additional \$9.5 trillion in assets split equally between financial assets (mostly stocks and bonds) and non-financial assets such as real estate. Even after deducting their debt load (\$1.8 trillion), Canadians still had a net worth of \$7.7 trillion outside of the formal pension system.

In addition, Canadians contribute more to private pensions than is generally thought. The way savings are measured can often be misleading, according to pension expert Malcolm Hamilton. The household saving rate is measured as contributions to savings minus withdrawals from savings. So even if overall

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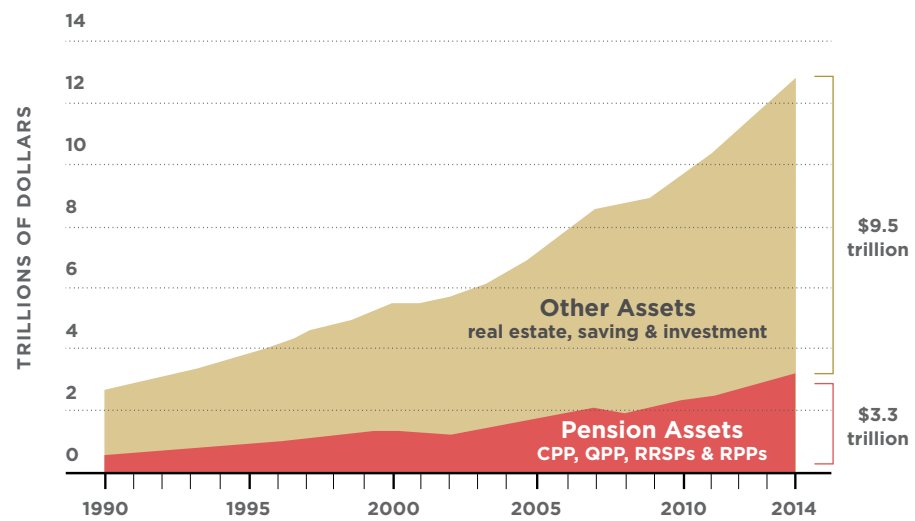
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savings increase, net savings can fall if more is withdrawn than is contributed. Indeed, the household saving rate has been falling as the population ages, not because working-age Canadians are contributing less to pensions, but because an increasing number of Canadians are withdrawing their savings as they retire. Hamilton points

out that private pension contributions to RRSPs and RPPs have actually increased as a percentage of employment income, nearly doubling from 7.7% in 1990 to 14.1% in 2012.

To learn more, read the Fraser Institute study [The Reality of Retirement Income in Canada](#)

Pension assets are only a portion of the assets available to Canadians upon retirement



MYTH 2

Higher CPP contributions will increase overall retirement savings

A second key myth is that increasing the CPP will result in a net increase in overall retirement savings. Unfortunately, this is not true. Any increase in the CPP will be offset by lower savings in private accounts.

Canadians choose how much they save and spend based on their income and preferred lifestyle. If their income and preferences do not change, and the government mandates higher contributions to the CPP, Canadians will simply reduce their private savings. In the end, overall savings won't change but there will be a reshuffling, with more money going to the CPP and less to private savings like RRSPs, TFSAs, and other investments.

This finding is backed up by research. One particular study focused on the mandatory increases in the CPP contribution rate between 1996 and 2004, when the rate rose from 5.6% to 9.9% of eligible earnings. That increase was followed by a drop in the private savings of Canadian households—for every \$1 increase in CPP contributions, the average Canadian

household reduced its private savings by roughly \$1. Canadians didn't, in fact, save more overall—they just saved differently, with less being saved privately.

Among the implications associated with reduced private savings are loss of choice and flexibility. For example, money saved in an RRSP allows Canadians to pull a portion of their funds out for a down payment on a home, or to upgrade their education, transfer money to a beneficiary in the event of death, or withdraw money in the case of an emergency. These benefits are not available through the CPP.

To learn more, read the Fraser Institute study [Compulsory Government Pensions vs. Private Savings: The Effect of Previous Expansion to the Canada Pension Plan](#)

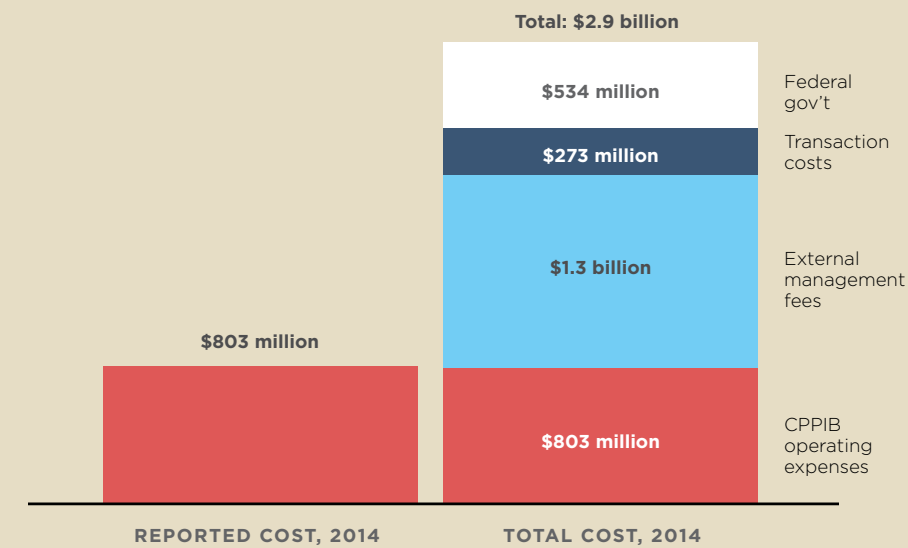
full cost for the CPP program was \$2.9 billion—more than three and half times the \$803 million the CPPIB reported as its operating cost that year.

As a share of assets (a common measure of the relative cost of pensions) the CPP's cost is 1.06%. The cost has more than

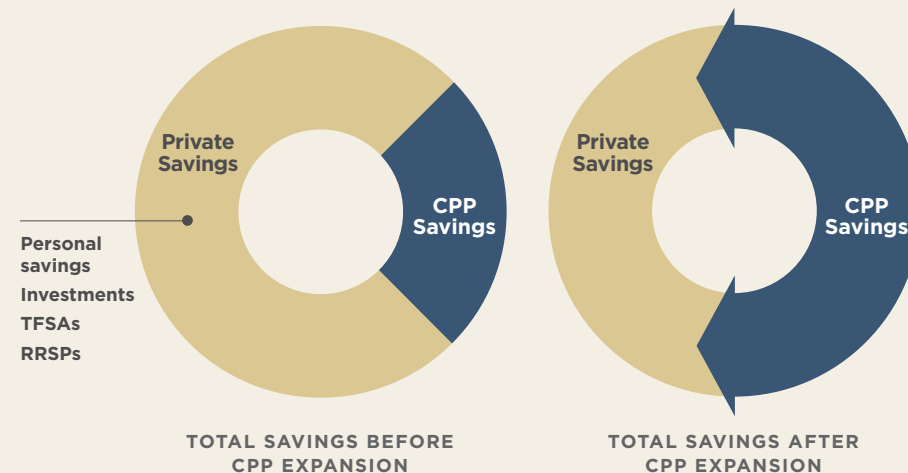
doubled over the past 10 years as the CPPIB has become more active and aggressive in its investment strategy.

To learn more, read the Fraser Institute study [Accounting for the True Cost of the Canada Pension Plan](#)

The total cost of running the CPP is much higher than what's reported



Increasing mandatory CPP contributions will reduce private voluntary savings, leaving total savings unchanged



MYTH 4

The CPP produces excellent returns for individual contributors

Some CPP expansion proponents point to the excellent returns earned by the Canada Pension Plan fund since 2000, implying that expanding the program would be a good deal for contributing Canadians. However, this claim conflates the returns earned by the investment arm of the CPP (the CPPIB), and the returns that individual Canadians receive in the form of CPP retirement benefits.

Certainly, the CPPIB's investments of CPP funds have performed well since 2000. However, that strong performance does not directly translate into a greater retirement benefit for Canadian workers. CPP benefits are calculated based on the number of years worked, CPP contributions, and the age the worker retires. Nowhere in this calculation is the CPPIB investment returns included.

The return that Canadian workers receive in the form of CPP retirement benefits (compared to their contributions) varies considerably depending on when the worker was born and retired. For instance, a worker born in 1905 who retired at age 65 in 1970—one of the first years Canadians received CPP benefits—would have enjoyed a 39.1% rate of return after inflation. For Canadians born after 1956, however, the CPP rate of return is a meagre 3.0% or less—and that rate of return declines further to 2.1% for those born after 1971.

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