Half a Century of Pension Reform in Canada

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Public pension reform re-emerged as a key policy issue during the years leading up to the 2017 sesquicentennial anniversary of the Canadian confederation. This is the case in part because of the rise after the 2008 financial crisis of a political push to expand the Canada Pension Plan (CPP) and the Quebec Pension Plans (QPP), two closely-coordinated programs created in the mid-1960s, just before the country’s centennial. In this short chapter I return to the initial debate leading to the advent of CPP and QPP, before turning to the recent debate about their expansion. Comparing and contrasting the debate over the creation of CPP and QPP in the mid-1960s with recent discussions over the expansion of these programs allows us to think about the future of public pension reform in Canada. Because of the multilayered nature of Canada’s public pension system, we cannot study CPP and QPP in isolation from the evolution of other key components of this system. I start therefore by looking at the pension programs that existed in Canada before the mid-1960s.

Before the Centennial Era

The first national pension legislation in Canada was the 1927 Old Age Pensions Act (OAP), which provided a means-tested pension of CDN $20 per month to poor people age 70 and older who had resided in Canada for at least 20 years. The implementation of this legislation across the country required provincial participation, with provinces initially having to provide half of the funding. In 1931, to convince more provinces to participate in OAP, the federal government increased its contribution to 75 per cent. Quebec agreed to participate in OAP only in 1936, a decision that made OAP available in all provinces.
In 1951, after constitutional negotiations with the provinces (necessary because pension reform fell under provincial jurisdiction), Parliament adopted Old Age Security (OAS). OAS was a purely federal program that eliminated the means-test associated with OAP to offer a flat pension to people age 70 and older who met residency criteria. Meanwhile, the Old Age Assistance Act (OAA) “extended means-tested benefits to those aged 65–69 and remained in place until 1970 by which time the age of eligibility for the universal pension (OAS) had been reduced to 65.”

This new public pension system existed alongside voluntary occupational pensions and, after 1957, Registered Retirement Savings Plans (RRSPs), which were created to encourage people to save for retirement.

The Centennial Era

Despite the postwar growth in occupational pensions and the creation of RRSPs, it became increasingly clear to observers that Canada’s modest public pension system centered on OAS could not guarantee the economic security of older people. Although the labour movement and the Cooperative Commonwealth Federation (CCF) pushed for meaningful pension reform in the mid-late 1950s, it was only in 1963, with the election of Lester B. Pearson’s Liberal minority government, that this issue moved to the forefront of the federal policy process. This stemmed in part from the progressive turn of the Liberal Party of Canada in the aftermath of the 1960 Kingston conference: there, the party adopted a more ambitious social policy agenda, with pension reform forming integral part.

Soon after the 1963 election, the Pearson government formulated a pension blueprint before discussing the creation of an earnings-related public pension program with the provinces (this later became the Canada Pension Plan).

A key turning point in these discussions came the following year when Quebec Premier Jean Lesage formulated the province’s own pension proposal. Lesage’s belief in the need to create Quebec’s own pension plan was rooted in part in his government’s policy objective of depositing pension surpluses in the future Caisse de dépôt et placement du Québec, a public investment board oriented toward investing in the province’s economy as part of the push for French Canadian entrepreneurship, something that proved central to the Quiet Revolution. Lesage’s proposal forced the Pearson government to revise its own proposal and expand the scope of the proposed CPP, which would exist alongside the nearly identical QPP.
The creation of CPP and QPP in the centennial era represented a key turning point in the development of the Canadian public pension system. Offering a modest replacement rate of 25 per cent, the programs would complement both voluntary pensions and personal savings and also coexist with the OAS which, starting in 1967, became closely linked to the Guaranteed Income Supplement (GIS). Initially conceived as a temporary measure to help low-income seniors until the maturation of CPP and QPP, GIS is an income-tested program that soon became a permanent feature of Canada’s public pension system. The very existence of GIS, which works in tandem with OAS, has meant that the system is more redistributive and more effective in fighting old-age poverty, which declined dramatically between the late 1960s and the late 1990s.\(^{10}\)

**The Legacy of the Centennial Era**

In the field of pension reform, the centennial era was a major turning point. The creation of CPP, QPP, and GIS helped improve the economic security of older Canadians, making Canada a world leader in fighting elderly poverty.\(^{11}\) At the same time, the centennial era also witnessed a rapid decline in fertility rates that marked the end of the postwar baby boom that peaked in 1959 with 3.94 children per woman. By 1972, the fertility rate had fallen below the reproduction rate (2.1), before declining even more after that.\(^{12}\) In 2015, Canada had a fertility rate of 1.6, compared to about 2.5 in 1967.\(^{13}\) The projected rise in the proportion of the population of persons over 65 years of age had a negative impact on the fiscal sustainability of CPP and QPP, which came under intense scrutiny in the mid-1990s. At that time, Ottawa and the provinces reached an agreement on CPP reform that led to significant changes to the program, including a gradual increase in the payroll tax from 5.6 to 9.9 per cent in 2003. Quebec enacted a similar reform to address the fiscal sustainability of QPP. In the end, CPP reform proved successful from both political and a fiscal standpoints because it moved the program back on a sustainable path. By increasing the contribution rate, the reform shifted CPP towards partial advance funding, thereby addressing concerns about intergenerational equity.\(^{14}\) The same cannot be said of the QPP reform, which failed to fix the long-term fiscal challenge facing the program, a situation related to Quebec’s less advantageous demographics.\(^{15}\) In 2011, the Quebec government decided to gradually increase the QPP contribution rate from 9.9 to 10.8 per cent, making it higher than the CPP rate for the first time since the creation of the programs in the mid-1960s.\(^{16}\)
Although the changes to CPP and QPP enacted in the mid-1990s and (for QPP only) and 2011 have helped secure the long-term fiscal future of these two programs, the 2008 financial crisis helped create a new path for pension reform that fully materialized during Canada’s sesquicentennial era. As opposed to events in the mid-1990s, this new push for pension reform involved an expansion of CPP and QPP benefits.

The Sesquicentennial Era

The 2008 financial crisis hit the pension savings of millions of Canadians while also drawing attention to the vulnerability of occupational retirement schemes, the gradual decline in their overall coverage, and their gradual shift from defined-benefit to defined-contribution pensions. These shifts have transferred demographic and economic risks from the employers operating these schemes to their workers. Concerns about the adequacy of public pensions existed before 2008 but growing economic insecurity associated with the financial crisis and the recession that followed helped legitimize a push for an expansion of CPP and QPP benefits, whose modest replacement rates of 25 per cent had remained unchanged since the creation of both programs during the centennial era.

Unsurprisingly, the New Democratic Party (NDP) and the Canadian Labour Congress led the charge on CPP expansion alongside left-leaning pension experts; the Canadian Labour Congress proposed a major increase in the payroll tax to finance an increase in the program’s replacement rate from 25 to 50 per cent. In office since February 2006, Conservative Prime Minister Stephen Harper was not ideologically or politically predisposed to support an expansion of CPP benefits. Yet, because the Conservatives had a minority government, they did at least have to consider reform. To this end, Finance Minister Jim Flaherty held public consultations on CPP reform and then publicly supported the idea of a modest increase in CPP benefits in June 2010. The small-business lobby and other elements of the Conservative base were strongly opposed to even this modest change, prompting Harper to explicitly abandon the idea later that year.

Although the public campaign in favour of CPP expansion did not stop with the election of a Conservative majority government in May 2011, the concrete political opportunity for CPP reform re-emerged only after the victory of the Liberal Party in the October 2015 federal election. During the 2015 campaign, Liberal leader Justin Trudeau had
embraced CPP expansion and, once in power, his government launched discussions with the provinces in an effort to bring about pension reform. Among the provinces, the Ontario Liberal government had been the most forceful in pushing for CPP expansion, threatening to create an Ontario Retirement Pension Plan if CPP benefits were not increased. The Quebec Liberal government, however, was not so keen on the idea of CPP expansion as it would have increased pressure within the Quebec political system to increase QPP benefits, a move the powerful provincial labour movement and some of its political allies had already embraced. It is important to highlight that Quebec’s Liberal government, led by Premier Philippe Couillard, was more fiscally conservative than its Ontario counterpart under the leadership of Premier Kathleen Wynne. In June 2016, however, the federal government and eight of the provinces reached an agreement on CPP expansion (Quebec abstained and Manitoba signed later). As part of this agreement, the CPP replacement rate was set to rise from 25 to 33.3 per cent and the payroll tax rate from 9.9 to 11.9 per cent between 2019 and 2023. The maximum earnings limit will increase from $54,900 to $82,700 between 2016 and 2025.21

As anticipated, the expansion of CPP announced in June 2016 pressured the Couillard government to increase the QPP’s replacement rate to mirror the CPP’s rate. At first opposed to this idea, the Couillard government later accepted it.22 In early November 2017, legislation was tabled in the National Assembly to expand QPP benefits along the lines of the CPP expansion announced the previous year.23 Not expanding QPP benefits would have been politically risky for the Couillard government ahead of a provincial election set to take place in October 2018.

Because CPP and QPP expansion is fully funded, higher pensions should benefit primarily people who will reach age 65 several decades from now.24 There is something remarkable about this expansion, which goes against the trend of most other advanced industrial countries, where pensions are trimmed rather than expanded.25

The Future of Public Pension Reform in Canada

The debate over CPP and QPP expansion during the sesquicentennial era should not obscure other looming issues related to the future of Canada’s multilayered public pension system. First, OAS and GIS are financed out of the federal government’s general revenues. In a context of accelerated population aging, rising pension costs are a significant issue for the federal treasury. Because the Trudeau government cancelled
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the decision to increase the eligibility age for both programs from age 65 to 67, as previously announced by the Harper government in 2012, other ways to mitigate the negative impact of population aging on the federal budget will have to be considered. This includes the extraction of new tax revenues.

Second, it is important to recognize the limits of occupation pensions and savings vehicles such as RRSPs in providing economic security to future waves of Canadian retirees. This is true in part because these voluntary schemes only cover a fraction of the working population. Considering this, further improvements to pension regulations and to the public pension system might be necessary in the future. The recently-announced increase in CPP benefits is not a silver bullet, especially if occupational pension coverage continues to decline over time.

Finally, while a lot of attention has been paid to OAS, CPP, and QPP in the sesquicentennial era, GIS remains a pivotal program in terms of fighting poverty among older people in Canada. Improvements to GIS benefits could help Canada further reduce poverty rates among vulnerable elderly populations, including Indigenous peoples, single women, and foreign-born citizens, all of whom are at high risk of falling into poverty.26 While Canada has spent less public money on retirement security since the centennial era than many other advanced industrial countries, its public pension system has been remarkably successful in fighting elderly poverty and efforts to maintain and even improve.27 Our record in this regard should extend beyond the sesquicentennial era.

NOTES

1 The author thanks Rachel Hatcher and John Myles for their comments and suggestions. He also acknowledges support from the Canada Research Chairs Program.


8 Dale C. Thomson, Jean Lesage and the Quiet Revolution (Toronto: Macmillan of Canada, 1984), 188.


11 Wiseman and Yčas, “Canadian Safety Net.”


22 Béland and Weaver, “Fork in the Road.”


27 Béland and Myles, “Stasis Amidst Change.”