EXCLUSIVE INTERVIEW:

Today I am pleased be talking to Bernard Dussault, former Chief Actuary of the Canada Pension Plan (CPP) about his proposal for CPP reform.

He has given presentations and written a paper suggesting a full scale expansion of the CPP that would essentially replace the current private pension system. He will tell us about his original study, and his reaction to the proposals made by the Finance Minister James Flaherty at the recent Pension Summit in PEI.

Q. Bernard, you suggest moving from the current system of Registered Pension Plans to the expanded CPP is the optimal pension reform solution. How would that work?

A. Obviously what I am proposing is quite extreme, so it could not be implemented at once. But suppose it would be implemented all at once. From day one all contributions already going to RRSPs and employers' pension plans would stop, and all Canadian workers would have to pay additional contributions to the CPP because its benefit rate would be increased from 25% to 70%. In a nutshell, that is what would basically happen.

Q. The CPP Yearly Maximum Pensionable Earnings is about $47,000. How do you see it going up?

A. In my proposal the YMPE would be increased to $127,778 which is the maximum amount of employment earnings on which contributions are made to registered pension plans. This limit exists because of the deferral of income taxes applying to contributions made to such plans.

Q. How much do you envisage CPP employer/employee contributions rising from the current total of 9.9% to support your proposed new program?

A. There are two levels of contribution. On the existing limit of CPP pensionable earnings, i.e. the YMPE of $47,200, the additional contribution rate would be 9.9%. By coincidence the contribution rate to the existing CPP is 9.9% to pay for a 25% benefit rate. In other words, to pay for an additional 45% benefit rate to bring it up to 70% the cost would not be more than 9.9% of pensionable earnings up to the YMPE. For the portion of earnings in excess of the YMPE, the contribution rate would be 15.4%.

Q. How would benefit levels be impacted and over what period of time? For example, if I was retiring four years from now and I have to make those extra contributions, what would I get for it?

A. All Canadian workers already get 25% from the CPP. The full scale CPP expansion would provide immediately a benefit increase of 45% but it would apply only to salary earned after the implementation date.

As for any new pension plan implemented on a full funding basis, the additional benefits provided by the CPP expansion would be proportionate to the amount and length of time over which the additional contributions are made. For example, a worker aged 60 today contributing for just five years would get approximately 5/45 of the new CPP expansion-related benefit.

Q. What would happen to existing DB & DC plans?

A. Contributions would stop being made and benefits would stop accruing in these plans. Nevertheless, whatever benefits have accrued by then would be paid at the normal retirement age applying under those plans, which is generally around age 60.

For example, someone aged 50 with 20 years of service with an employer sponsoring a defined benefit plan, would already have an accrued benefit of 40% of average salary that would become payable around age 60. At age 65, that person would also normally start receiving the existing CPP benefit of 25% (at which time the private plan 40% benefit would be reduced by about the same amount) plus about 15/45th of the CPP expansion-related 45% benefit, i,e, 15%, for a grand total of 55% (i.e. 40% plus 15%)

Q. Wouldn't this be putting all of our eggs in one basket? The CPP would be administering an unbelievably huge amount of money.

A.The answer to that question is yes and no.

The reason for the yes portion of the answer is that any CPP expansion-related additional funds (which would represent annually about $100 billion of new contributions) would be allocated on a proportionate basis to all provinces.

None of the new contributions would go to the existing CPP investment fund, which is already large enough – about $125 billion.

Then each province could find ways to invest the new contributions in the private sector. The banks and the insurance companies might get a share of these provincial investment. This way, financial institutions might not be affected by the discontinuation of contributions to RRSPs and occupational pension plans.

The reason for the no portion of the answer is that in period of unfavourable investment earnings, most, if not all, pension funds lose money as if they were part of one single big fund.

Q. I wasn't thinking so much about solvency of the CPP fund, but about the political side of it. The CPP since the revisions several years ago has been a model of good governance and good investment practice, but the larger it gets the more potential for it to be a political target particularly if you split it out among the provinces that may all have very different priorities.

A. That is right, but the only aspect of governance that would be a potential concern is the proper investment of the new funds generated by the CPP expansion. This would addressed as described earlier. All other governance aspects of the CPP expansion would be the same those of the existing CPP.

Q. Would there still be one Board for the whole country, although the investments would be split out among the provinces.

A. In my view, both tiers of the expanded CPP (i.e. existing plus expansion) should be governed under the existing federal legislative scheme whereby any amendment to the plan requires the approval of at least seven provinces covering at least two-thirds of the population of Canada.

Q. When you developed this proposal, did you believe it would fly politically, or did you do it more to put a stake in the ground and promote discussion?

A. Well the answer is a bit of both and a bit of neither. I knew it was possible but not necessarily highly probable. Some journalists asked me the same question a few years ago when my paper came out. I said changing the CPP is not easy. It is already a miracle that it was implemented in 1966 and then largely reformed in 1998. I would not be surprised if CPP could never be revised again, but it's possible. Maybe this proposed expansion seems like a dream but when something makes sense, even if you think the chances of success are low, you have to go with your dream and just put it out there.

I'm surprised that it went so far as it has, but if it had not been proposed it would never have happened.

Q. What do you think of the proposals coming out of the Pension Summit in PEI about modest changes to CPP and legislation to permit industry wide multi-employer plans operated by financial institutions?

A. I was not surprised, because in my paper it's one of the points I make. Full scale expansion of the CPP cannot happen immediately. It has to be done in steps. In the paper I give the example of a two step process, but the Minister has said he will start slowly with one small step.

He has to do that for a lot of reasons. There is considerable opposition to a CPP expansion and the economic conditions are not presently too fine, so he is saying it will be done on a step by step basis.

Q. Do you think moving in this direction with these baby steps will actually help to improve pensions for all Canadians?

A. Any step would add to the retirement security of Canadian workers.

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Thanks Bernard. It was very interesting to talk to you today. I'm sure you will continue to be involved in the dialogue as CPP and other legislative changes are developed in the months and years to come.

Media Contact:
Sheryl Smolkin
(416) 227-9025
sheryl@sherylsmolkin.com