12. Strengthening the Canada Pension Plan to Support the Most At-Risk Canadians

Issue

Some Canadians currently do not have sufficient combined public and private financial resources (pensions and savings) in place to adequately provide for their retirement years. If not addressed, there is the risk that these individuals will not only be left with a significantly lower standard of living but that they will put additional pressure on an already strained public social system.

The needs of these individuals however often conflict with those of business. Adding too many additional costs to business owners in the form of additional CPP contributions or other payroll taxes may have the unintended consequence of stifling growth in these companies, which will only further exacerbate the problem.

Background

According to a 2014 report written by McKinsey and Company a "*strong majority of Canadian households are actually on track to maintain their standard of living at retirement*". According to their 2014 study, McKinsey estimates that only "17 percent of the nation's households [are] financially unprepared for retirement" and they fall into two categories in middle- to high-income households: "those that do not contribute enough to their defined contribution (DC) plans or group RRSPs and those that do not have access to an employer plan and have below-average personal savings".

Furthermore, the survey results of the McKinsey report conclude that "*a couple with two income earners and a constant combined income of $40,000 or less throughout their working life would be able to maintain their standard of living in retirement based solely on income from GIS, OAS, and the CPP/QPP*".

Canada's balanced system between public programs and private savings, which ensures shared accountability, has worked well for most Canadians – improved public pensions cannot resolve the problem fully. All Canadians should be both financially literate and motivated to use the tools and products that are currently available to properly save for their own retirement income needs. Banks, Credit Unions and other financial service efforts are already providing the necessary coaching and advice to their clients and owners. No doubt these institutions are ready to partner with the federal government to extend that effort to the public at large if that is what is deemed most appropriate.

The financial services sector have the financial tools, products and resources to provide Canadians channels for retirement saving without adding costs to business and administrative overhead at the public level.

Since the majority of Canadian households are on track for retirement, any enhancements to the CPP should be targeted at the individuals that most need the help rather than to all households – this will avoid any unintended negative consequences of a broad program.

We do note however that there is a role for government when someone in a defined contribution pension plan isn't saving enough to fund their retirement but caution that Ontario businesses will be at risk if they are required to pay higher CPP premiums in addition to the proposed Ontario Registered Pension Plan (ORPP).

The Canadian Chamber of Commerce is encouraged to learn that after the provincial and territorial finance ministers met to discuss CPP reform "*that there was strong support among premiers for a targeted change aimed at*" (Globe and Mail, December 21 2015) middle-to-high income Canadians.

Recommendations

The Canadian Chamber of Commerce recommends that the Federal Government:

1. During the course of any reforms to CPP, promote the use of existing private financial products such as Group RRSPs, Personal RRSPs, Life Insurance, Stock Purchase Plans, etc.

For example, individuals could have the option to contribute retirement savings to these products rather than to participate in increased CPP contributions. These products could consist of “locked-in” accounts in order to ensure that the funds will still be available when the individual retires.

2. That any reforms to CPP are aimed specifically at targeting those Canadians who are not saving enough for retirement. As noted by Finance Minister, Bill Morneau in his interview with the National Post, enhancements to CPP should be fully funded by those who will actually use it.

3. Promote a greater degree of financial literacy among the public through educational programs which specifically focus on helping Canadians understand how much they need to save for retirement and which types of financial products are available to help them do this.

4. That in order to mitigate the cost to business and its effect on the economy that reforms to CPP be phased in over a period of 5 to 10 years and to be delivered within CPP’s current spending envelope.