



CANADA

<p>Canada: pension system in 2006</p> <p>The pension system offers a universal flat-rate benefit, which can be topped up with an income-tested benefit, and earnings-related public schemes.</p>

		Key indicators	
		Canada	OECD
Average earnings	CAD	40 600	40 500
	USD	35 800	35 800
Public pension spending	% of GDP	4.1	7.2
Life expectancy	at birth	80.4	78.9
	at age 65	84.5	83.4
Population over age 65	% of working-age population	21.1	23.8

Qualifying conditions

The basic old age security (OAS) pension is subject to a residence test, with $\frac{1}{40}$ th of the maximum pension earned for each year of residence after age 18 up to a maximum of 40 years. A minimum of ten years' residence is required to receive any benefit. It is payable from age 65.

For the earnings-related scheme, a full pension requires about 40 years' contributions but a single valid contribution is sufficient to generate an entitlement. Normal pension eligibility age is 65 but an early pension can be claimed from age 60.

Benefit calculation

Basic

The 2006 full pension level for the OAS pension was CAD 5 846.19. The value of the basic pension is price-indexed.

This pension is subject to an income test operated through the tax system (a "claw-back"). For income above CAD 62 144 a year, the basic pension in 2006 was withdrawn at a 15% rate. It is also indexed to prices.

Targeted

The guaranteed income supplement (GIS) is added to the basic OAS pension. The combination gave a maximum benefit of CAD 13 011.33 in 2006.

The GIS is reduced against income other than the basic pension at a 50% rate. The target benefit level is price-indexed.

Earnings-related

Earnings-related pensions and benefits are provided by the Canada Pension Plan (CPP)/Québec Pension Plan (QPP). The CPP and QPP offer broadly similar benefits. The scheme targets a replacement rate of 25% of earnings, based on average lifetime salary (excluding the 15% of years

with the lowest earnings). Earlier years' pay is revalued in line with economy-wide earnings. As noted previously, the full benefit requires about 40 years' contributions with proportional reductions for shorter work histories. The maximum earnings-related retirement pension for 2006 was CAD 844.58 a month.

People earning less than CAD 3 500 a year are not required to contribute. There was a ceiling of CAD 42 100 in 2006 to contributions. The ceiling is indexed to increases in average earnings while the contribution floor is frozen in nominal terms.

The value of the earnings-related pension after retirement is updated annually in line with prices.

Voluntary private pensions

Around 40% of employees are covered by occupational pension schemes. In 2003, around 80% of these were defined-benefit plans. The defined-benefit plan modelled, based on the results of a national survey of schemes, has an accrual rate of 1.3% of earnings up to the ceiling of the public scheme and 2% thereafter. Pensions are based on final salaries.

Overall coverage of voluntary private pensions – including both personal and occupational plans – is around 57%. For calculating defined-contribution pension values, a contribution rate of 8.5% of earnings is assumed.

Variant careers

Early retirement

Early retirement beginning at age 60 is possible in the state earnings-related scheme subject to a benefit reduction of 6% per year. Early retirement is not possible in the other two public schemes (basic and means-tested).

Late retirement

The earnings-related pension can be deferred earning a 6% increment for each year after age 65 – up to a maximum of five years. The basic and income-tested benefits cannot be deferred. The income-test for the latter includes earnings, for the former there is a claw-back against large incomes, again including earnings.

Childcare

Years of caring for children under the age of 7 are excluded from the averaging period in the pension calculation and these years are excluded from the contributory period under the earnings-related scheme.

Unemployment

Up to 15% of the contributory period may be excluded in calculating average earnings. This drop-out is intended to compensate for periods of unemployment, illness, schooling etc. There are no credits for periods of unemployment.

Personal income tax and social security contributions

Taxation of pensioners

Under the personal income tax, an additional age credit of 15.25% on CAD 5 066 in 2006 is available if total income is CAD 30 270 or less. The amount of age credit is reduced at a rate of 15% of income in excess of CAD 30 270. The credit amount and the income level over which it is reduced have been fully indexed to price inflation since 1988.

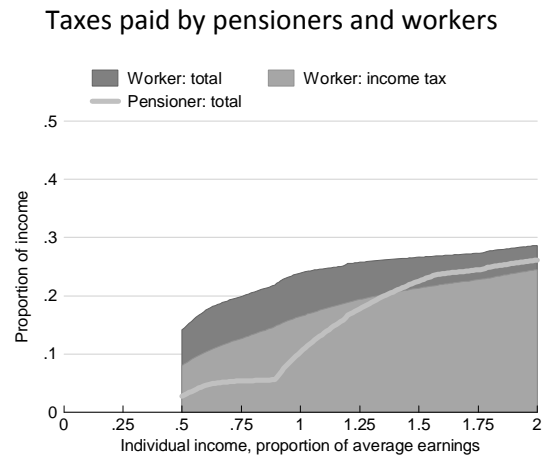
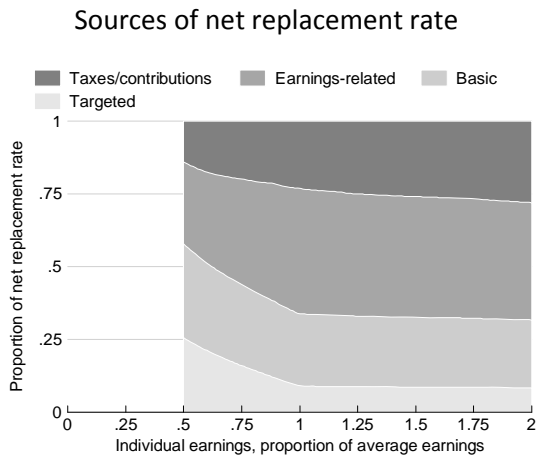
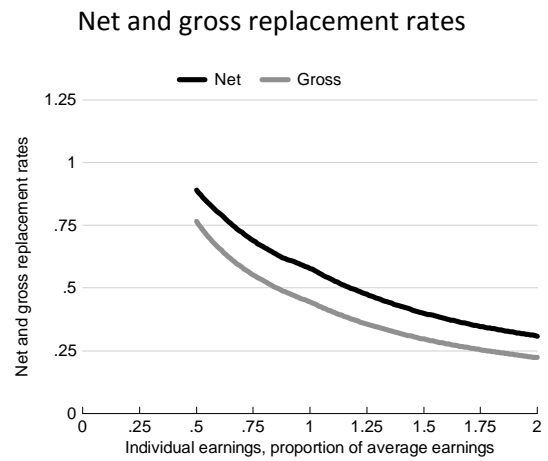
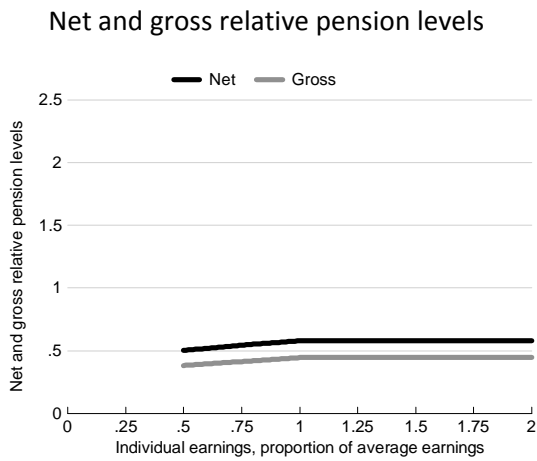
Taxation of pension income

There is also a credit of 15.25% provided on the first CAD 2 000 of pension or annuity income. Only pension income other than that from the public schemes (basic pension, CPP and/or QPP) is eligible for this credit. Public pension benefits are taxable with the exception of the targeted GIS.

Social security contributions paid by pensioners

Social security contributions are not levied on pension income.

Pension modelling results: Canada



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	42.6	38.3	41.4	44.5	44.5	44.5
Net relative pension level (% net average earnings)	55.9	50.3	54.4	57.9	57.9	57.9
Gross replacement rate (% individual gross earnings)	50.2	76.5	55.2	44.5	29.7	22.2
Net replacement rate (% individual net earnings)	63.6	89.1	68.9	57.9	40.0	30.9
Gross pension wealth (multiple of average gross earnings)	7.7 8.9	11.7 13.6	8.4 9.8	6.8 7.9	4.5 5.3	3.4 4.0
Net pension wealth (multiple of average net earnings)	7.6 8.9	11.7 13.6	8.4 9.8	6.7 7.8	4.5 5.2	3.4 3.9