OECD
BETTER POLICIES FOR BETTER LIVES

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- **Raise mandatory contributions targeted at middle-income earners or at least introduce effective auto-enrolment into private schemes for this population group**
- **Shift the indexation of GIS and OAS from prices to wages, and link the statutory retirement ages to life expectancy**

The pension system is diversified, but projected replacement rates from mandatory schemes are relatively low. First-tier pensions, which include a residence-based basic pension (Old Age Security, OAS) and an income-tested component (Guaranteed Income Supplement, GIS), currently provide a reasonable safety net for individuals who recorded low incomes during their working life. The mandatory earnings-related component, Canada (or Quebec) Pension Plan (CPP, or QPP), is a public partly funded scheme with limited scope as it targets a gross replacement rate of 33% in the long term up to a wage threshold slightly above the average wage. The combination of GIS, OAS and CPP generates replacement rates that will decline steeply for low earners over time based on current indexation rules. Optional and private pensions are made of both occupational and individual savings plans. Coverage has been declining, with a marked heterogeneity in participation across income levels. The share of the employed population covered by registered pension plans sharply declined from 52% to 35% between 1977 and 2017 among men while it increased slightly from 36% to 39% among women.

Key indicators: Canada and OECD average

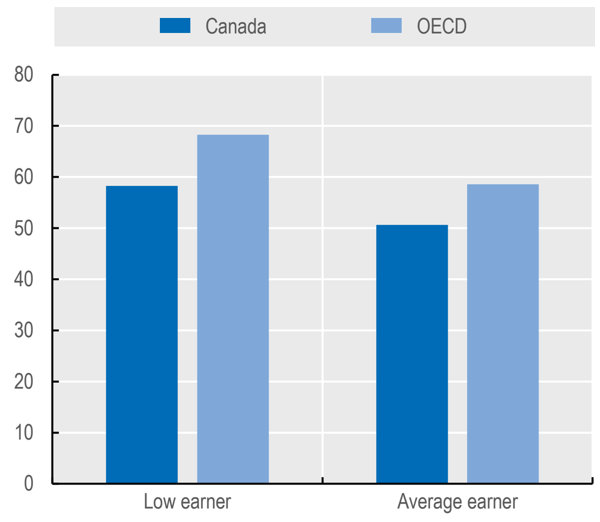
	Mid-1980s	Mid-1990s	Mid-2000s	Latest available	Latest OECD	Long term	Long term OECD
Normal retirement age for a full-time career starting at the age of 22	67.0	65.0	65.0	65.0		65.0	
Statutory retirement age	67.0	65.0	65.0	65.0	62.9 (61.8)	65.0	66.1 (65.7)
Net replacement rate, average earner						50.7	58.6 (57.6)
Total mandatory contribution rate		5.4	9.9	9.9	18.4		
Total pension spending, % of GDP	5.6	8.0	8.2	7.8	9.5		
Public pension spending, % of GDP	3.8	4.6	4.0	4.7	8.0		
Public debt, % of GDP	67	103	76	94	109		
Employment rate 55-64, %	63.0 (30.8)	53.3 (33.3)	63.1 (46.8)	67.3 (58.7)	70.0 (53.2)		
Labour-market exit age	63.7 (62.9)	62.6 (60.1)	63.5 (61.5)	65.5 (64.0)	65.4 (63.7)		
Old-age poverty rate, %	8.3	1.4	5.1	12.2	13.5		
Life expectancy at 65, years	15.1 (19.4)	16.2 (20.0)	18.2 (21.3)	19.3 (22.2)	18.1 (21.3)	23.4 (25.8)	22.5 (25.2)
Old-age to working-age ratio	0.17	0.20	0.21	0.30	0.31	0.45	0.53
Fertility rate	1.6	1.6	1.6	1.5	1.7	1.6	1.7

Note. The figures for women appear in parenthesis where they differ from those for men. Long term: Around 2060 based on all legislated reforms up to mid-2019.

Longer lives will continue to put pressure on the pension system. Canada will be subject to a similar pace of ageing as most OECD countries. The 2016 reform will gradually raise the target for the CPP replacement rate from 25% to 33% by 2065, with a modest increase to the ceiling on pensionable earnings (relative to the average wage) by 2025, all financed by higher contribution rates as the CPP enhancement is meant to be fully-funded. The impact of the enhanced CPP on net replacement rates is reduced by taxation and income-testing effects. At the same time, despite steady gains in life expectancy, the planned increase in the eligibility age for GIS and OAS, from 65 to 67 years by 2029, was cancelled. In 2019, to encourage people with low income to work at older ages, the employment and self-employment earnings exemptions for the GIS were increased. The relative old-age poverty rate, which was small in the 1990s (and much below that for the whole population), has increased substantially, reaching 12% in 2016. The old-age safety-net benefits – both the GIS and the OAS – are price indexed with some periodic increases, which implies that in the long run they are likely to decline in relative terms with growth in real wages, which itself might be spurred by ageing and the induced limited labour supply.

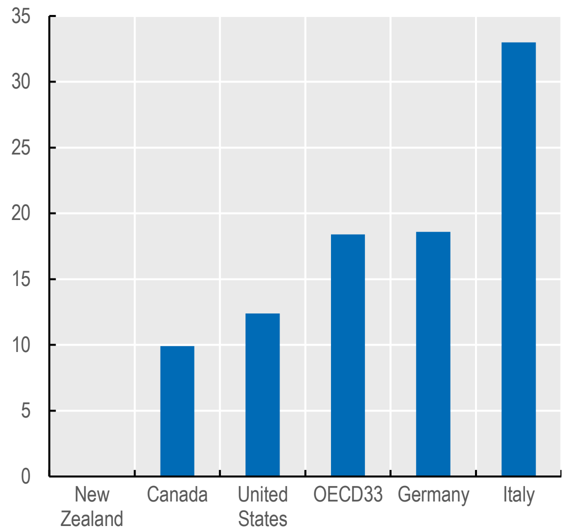
Replacement rates remain low for middle-income earners while differences between private-sector and public-sector workers are large. The funding level of DB schemes including the CPP and the growing share of DC schemes place the country in a relatively favourable position for financing retirement incomes although the low interest-rate environment might make this more difficult. At the same time, middle-income groups who do not opt for voluntary schemes are likely to have low replacement rates, and the future replacement rates for private-sector average-wage earners are much lower than in the OECD on average. Despite its planned increase from 9.9% in 2019 to 11.9% by 2023, the mandatory contribution rate is much lower than the OECD average of around 19%. Moreover, the private pension landscape is very fragmented which generates complexity and inefficiencies; as in many countries, employers' interest in occupational defined benefit plans is waning and administrative fees in individual plans are high. Federal legislation created pooled retirement saving plans as a way to boost portability, reduce fees and lower the risks supported by employers. All provinces have adopted similar legislation. It is based, however, on optional participation by employers and auto-enrolment of employees. Several provinces adopted similar legislation and others are expected to do so. For central-government employees, the projected replacement rate from mandatory schemes after a full career at the average wage is about twice as high as that in the private sector.

Long-term net pension replacement rates from mandatory schemes are low in Canada



Source: OECD pension models.

Effective mandatory contribution rates for average earners are low within the OECD



Source: Table 8.1, Pensions at a Glance 2019

Long-run pension income prospects should be improved. The price indexation of safety-net benefits raises relative old-age poverty risks over time. Maintaining the relative position of the most vulnerable elderly people calls for a shift of indexing first-tier benefits to wages. Longer lives should also be accompanied by higher eligibility ages for public pensions, and creating a link between the two to stabilise the balance between time spent working and in retirement would lower the political cost of adopting repeated measures. The pension system relies more than in other countries on optional instruments. Reducing inefficiencies in private plans, mainly in terms of obstacles to portability and high fees, might increase their attractiveness. Streamlining private instruments by enhancing pooled schemes and lowering fees in individual plans thus remains a policy priority. However, to improve the prospects of middle-income earners, a more forceful intervention might be needed through higher mandatory contributions or at least auto-enrolment in private pensions, potentially with targeted incentives.

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