Canada

Canada: Pension system in 2016

The pension system offers a universal flat-rate benefit, which can be topped up with an income-tested benefit, and earnings-related public schemes and voluntary private pensions.

Key indicators: Canada

		Canada	OECD
Average worker earnings (AW)	CAD	50 997	49 233
	USD	37 935	36 622
Public pension spending	% of GDP	4.6	8.2
Life expectancy	at birth	82.6	80.9
	at age 65	21.0	19.7
Population over age 65	% of working- age population	26.1	27.9

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Qualifying conditions

The Old Age Security (OAS) program provides a basic pension to seniors who meet the legal status and residence requirements. Seniors who have resided in Canada for at least 40 years after age 18 receive a full basic OAS pension. Those who do not qualify for a full pension receive a partial pension if they have resided in Canada for at least 10 years after age 18. The amount of their benefit is calculated at the rate of 1/40th of a full pension for each complete year of residence in Canada.

For the earnings-related scheme, the Canada Pension Plan (CPP), the normal pension eligibility age is 65, but an actuarially reduced pension can be claimed from age 60 and actuarially increased pension can be claimed up to the age of 70.

Benefit calculation

Basic

The 2016 full pension level for the OAS pension was CAD 6 878.82. The value of the basic pension is price-indexed.

This pension is subject to an income test through the tax system (a “claw-back”). OAS benefits are reduced by 15% of individual net income above CAD 73 756 (for 2016). This income threshold is fully indexed to price inflation.

Targeted

OAS pensioners who receive little or no income, other than the OAS pension, are eligible for additional assistance through the Guaranteed Income Supplement (GIS). The combination gave a maximum of CAD 16 681.86 in 2016 for a single pensioner.

With no other income, seniors receive the maximum GIS benefit. For every $2 of other income, the GIS is reduced by $1, however the first CAD 3 500 of employment income is exempt. The GIS is also price-indexed.

Earnings-related

Earnings-related pensions and benefits are provided by the CPP/ Québec Pension Plan (QPP). The CPP and QPP offer broadly similar benefits. The scheme targets a replacement rate of 25% of earnings up to the Yearly Maximum Pensionable Earnings (YMPE), based on average lifetime salary. Earlier years' pay is re-valued in line with economy-wide earnings. A full benefit requires about 39 years' contributions with proportional reductions for shorter work histories. The maximum earnings-related retirement pension for 2016 was CAD 13 110.

People earning less than CAD 3 500 a year are not required to contribute. The ceiling, or YMPE, for contributions was CAD 54 900 in 2016. The ceiling is indexed to increases in average earnings while the contribution floor is frozen in nominal terms. Earnings-related pension benefits are indexed with prices.

In 2016, the federal and provincial governments reached an agreement to modestly enhance the CPP with additional contributions beginning in 2019, and gradually phased-in over seven years. The enhanced CPP will increase the replacement rate from 25% to 33.33%. Under the CPP enhancement, the YMPE will be increased by 14% (roughly CAD 82 700 upon full phase-in of the new contributions and threshold in 2025). Once fully matured in 2065, the CPP enhancement will increase the maximum CPP retirement benefit by up to 50%. Before 2065, only partial benefits would be paid.

The province of Québec, which administers the QPP, has opted not to enhance their plan at this time. Following a public consultation, a decision on whether to enhance the QPP is expected to be made in late 2017.

Voluntary private pensions

Occupational pension plans and registered retirement savings plans (RRSPs) enable Canadians to save for their retirement beyond the base provided by the OAS, GIS and CPP/QPP.

Occupational pension plans are defined benefit schemes, defined contribution schemes, or hybrids of the two. In 2014, there were about 6.3 million members in occupational pension plans, representing 32% of all workers (46.1% in 1977). The decrease in plan coverage has been concentrated among private sector employees, and coupled with a general shift from defined-benefit to defined-contribution plans.

An RRSP is a government-assisted retirement savings vehicle offered by banks and insurance companies, where contributions, capital gains and interest accrued inside the plan are tax-exempt until withdrawn. Workers can make annual contributions to an RRSP equal to 18% of their earned income, up to a maximum of CAD 25 370 (in 2016), but in order to maintain tax fairness, workers who contribute to an occupational pension plan are more restricted than others in their RRSP contributions. Workers can make RRSP contributions up to age 71, at which time the accumulated funds must be converted to an annuity or disbursed yearly according to a minimal withdrawal schedule. 24 Million Canadians have room to contribute to RRSP accounts, and only 23.0% made a contribution to their RRSP in 2014. Funds held in an RRSP are not exclusively locked-in for retirement: up to CAD 20 000 can be withdrawn without penalty to finance the purchase of a first home or to self-fund one’s education. Monies withdrawn for these purposes have to be repaid into the RRSP under 10 to 15 years otherwise they are considered taxable income.

Tax-assisted saving opportunities provided through workplace pension plans, pooled pension plans offered by financial institutions, and individual savings vehicles permit individuals to supplement public pensions to achieve their retirement income goals.

For the purposes of these calculations, membership in a defined benefit pension plan with an accrual rate of 1.5%, including the CPP, is assumed.

Variant careers

Early retirement

Early retirement beginning at age 60 is possible in the CPP, the state earnings-related scheme, subject to an actuarial benefit reduction. The early pension adjustment reduces the pension amount by 0.6% for each month the pension is taken before age 65 to the maximum reduction of 36% at age 60. In the QPP, the corresponding early pension adjustment ranged from 0.5%-0.6% per month up to a maximum reduction of 30-36% if the pension is taken at age 60. (The adjustment factor in this case is proportional to the level of the recipient's benefit). Early retirement is not possible in the basic OAS and means-tested GIS.

Late retirement

Individuals have the option to defer the basic OAS pension for up to five years after age 65. The delayed pension will be adjusted upward by 0.6% per each month of deferral, up to a maximum of 36%, if benefit is taken at age 70. The income-tested GIS benefit cannot be deferred.

The CPP/QPP earnings-related pension can be deferred as well. The late pension adjustment permanently increases the pension amount by 0.7 % per each month of delay after age 65, up to the maximum increase of 42%, if claimed at age 70.

Childcare

In the earnings-related CPP/QPP, years of caring for children under the age of seven with zero or low earnings can be excluded from the averaging period, if it results in a pension increase.

Unemployment

Up to 17% of the contributory period with lowest earnings may be excluded in calculating average earnings in the CPP earnings-related scheme (15% in the QPP). This generic drop-out is intended to compensate for periods of unemployment, illness, schooling, caregiving *etc.* There are no additional credits for periods of unemployment.

Personal income tax and social security contributions

Taxation of pensioners

Under the personal income tax, an additional tax credit of 15% on an amount of CAD 7 125 in 2016 is available for individuals aged 65 and over if total income is CAD 35 927 or less. The amount of the age credit is reduced at a rate of 15% of individual net income in excess of CAD 35 927. The credit amount and the income level over which it is reduced are fully indexed to price inflation.

Taxation of pension income

Public pension benefits (with the exception of GIS benefits), payments from private pension plans, withdrawals from individual retirement savings vehicles, and payments from annuities purchased with pension and retirement savings, are included in income for regular tax purposes.

A tax credit of 15% is provided on the first CAD 2 000 of eligible private pension income. Eligible pension income is generally limited to pension payments from an employer-sponsored pension plan and, as of age 65, payments and withdrawals from certain other retirement savings plans and payments from an annuity purchased with such savings.

Canadians are subject to income tax on an individual basis. However, pensioner couples may split their eligible private pension income for tax purposes, subject to specified conditions. More specifically, at tax filing time, an individual may allocate up to 50% of their eligible pension income to their spouse or common-law partner for tax purposes.

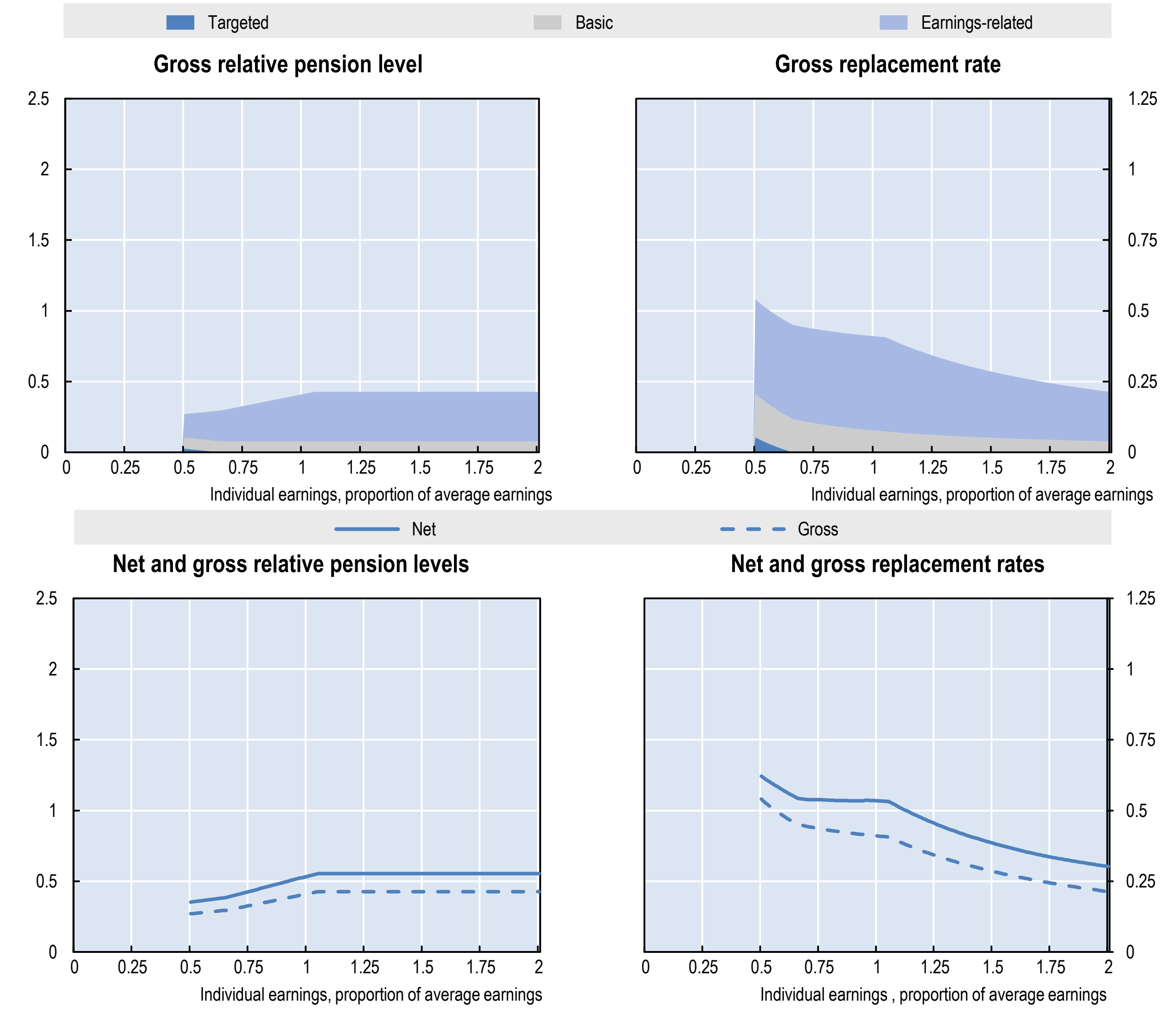
Social security contributions paid by pensioners

Since 2012, contributions are mandatory for working CPP retirement pension recipients under the age of 65, but those between the ages of 65 and 70 can choose to stop making contributions. Each year of these contributions increases retirement income by generating a Post-Retirement Benefit (PRB) that becomes payable the following year and will continue to be paid until the death of the contributor indexed annually for inflation.

The QPP also requires working pension recipients to contribute to the plan (which also generates an additional benefit payable the next year after additional contributions), but unlike the CPP, working pension recipients are required to contribute regardless of age.

Social security contributions are not levied on pension income.

Pension modelling results: Canada in 2061 retirement at age 65



Men *Women (where different)*	Individual earnings, multiple of average 0.5	 0.75	 1	 1.5	 2	 3
Gross relative pension level	27.0	32.7	41.0	42.7	42.7	42.7
(% average gross earnings)						
Net relative pension level	35.3	42.7	53.4	55.5	55.5	55.5
(% net average earnings)						
Gross replacement rate	54.1	43.6	41.0	28.5	21.4	14.2
(% individual gross earnings)						
Net replacement rate	62.2	53.8	53.4	38.5	30.2	21.6
(% individual net earnings)						
Gross pension wealth	10.4	8.4	7.9	5.5	4.1	2.7
(multiple of individual gross earnings)	*11.2*	*9.0*	*8.5*	*5.9*	*4.4*	*2.9*
Net pension wealth	11.9	10.3	10.2	7.4	5.8	4.1
(multiple of individual net earnings)	*12.8*	*11.1*	*11.0*	*7.9*	*6.2*	*4.5*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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