Pensions at a Glance 2023

Canada

Canada: Pension system in 2022

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	81 163	53 703
	USD	62 359	41 261
Public pension spending	% of GDP	5.0	7.7
Life expectancy	at birth	82.8	80.7
	at age 65	86.4	84.6
Population over age 65	% of working-age population	31.7	31.3

Qualifying conditions

The Old Age Security (OAS) programme provides a residence-based basic pension to seniors aged 65 or over 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. In July 2022, a higher pension rate was introduced for those aged 75 and over and will permanently be 10% higher than the base rate. Low-income OAS pensioners receive an additional monthly payment called the Guaranteed Income Supplement (GIS).

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. It covers virtually all employed and self-employed persons in Canada, excluding Quebec, which operates its own comprehensive plan, the Quebec Pension Plan (QPP), a provincially run public plan similar to the CPP.

Benefit calculation

Basic

The 2022 full pension level for the OAS pension was CAD 7 929.75 for persons aged 65-74 and CAD 8 335.44 for persons aged 75 and over. All individuals meeting the legal status and residence requirements will receive these amounts. The value of the basic pension is price indexed. This pension is subject to an income test through the tax system (a “claw-back”), whereby OAS benefits are reduced by 15% of individual net income above CAD 81 761 (for 2022). This income threshold is 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 GIS. The combination gave a maximum of CAD 19 773.72 in 2022 for a single pensioner aged 65-74 and CAD 20 179.41 for a single pensioner aged 75 and over.

The GIS is income-tested to ensure that additional assistance is provided to those seniors most in need. With no other income, seniors receive the maximum GIS benefit. The GIS benefit is withdrawn at 50% as income increases. However, the first CAD 5 000 of employment and self-employment income is exempt, plus a partial exemption of 50% of the next CAD 10 000 of employment and self-employment. The GIS is also price indexed.

Earnings-related

Earnings-related pensions and benefits are provided by the CPP/QPP. The CPP and QPP offer broadly similar benefits. The scheme will achieve a replacement rate of 33% of earnings, with 40 years of contributions, 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 proportional benefit is paid with fewer than 40 years of contributions. The maximum earnings-related retirement pension for 2022 was CAD 15 043.

People earning less than CAD 3 500 a year are not required to contribute. The ceiling, or YMPE, for contributions was CAD 64 900 in 2022. 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.

The CPP replacement rate is being gradually increased from 25% to 33%. Under the CPP enhancement, the YMPE will also be increased by up to 14% (CAD 81 100 upon full phase-in of the new contributions and threshold in 2025, per the 2022 projections of the Chief Actuary of Canada). Once fully matured in 2065, the CPP enhancement will increase the maximum CPP retirement benefit by up to 50% compared to the old system. Before 2065, only partial benefits would be paid based on the years of contributions made.

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 mostly defined benefit schemes, defined contribution schemes, or hybrids of the two. In 2019, there were just over 6.5 million members in occupational pension plans, representing 37.1% 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 being withdrawn. Workers can make annual contributions to an RRSP equal to 18% of their earned income, up to a maximum of CAD 29 210 (in 2022). Workers can make RRSP contributions up to age 71, at which time the accumulated funds must be withdrawn on a taxable basis, converted to an annuity or transferred to a registered retirement income fund (RRIF) and disbursed yearly according to a minimal withdrawal schedule. Only 22.3% of tax filers contributed to their RRSP in 2020.

Funds held in an RRSP are not exclusively locked-in for retirement and can be withdrawn on a taxable basis for many purposes. Up to CAD 20 000 can be withdrawn (at a maximum of CAD 10 000 per year) to self-fund one's education or up to CAD 35 000 can be withdrawn to finance the purchase of a first home, without immediate tax consequences as long as these funds are recontributed to an RRSP within a set timeframe.

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 projections in the OECD pension model, membership in a defined contribution pension plan with a contribution rate of 8.5%, split equally between employee and employer, is assumed.

Variant careers

Early retirement

Early retirement beginning at age 60 is possible in the CPP/QPP, the state earnings-related schemes, subject to an actuarial benefit reduction. In the CPP, 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 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. The enhanced component of the CPP that began in 2019 drops pension credits into these years rather than excluding them.

Unemployment

Up to 17% of the contributory period with lowest earnings may be excluded in calculating average earnings in the base CPP earnings-related scheme (15% in the base 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. The enhanced portion of the CPP and QPP provide similar protection, as benefits are calculated using the best 480 months of the contributor's career,

Self-employed

Anyone over the age of 18 working in Canada (outside of Quebec) contributes on employment earnings between CAD 3 500 and an annual earnings limit (adjusted each year based on changes in the average wage in Canada). In 2022 this limit is CAD 64 900. The pension contribution rules are the same for all forms of self-employment income, as self-employed individuals contribute both the employer and employee shares.

The contribution base for self-employed workers is their net business income, after deducing social and pension contributions.

For CPP benefits, to make a valid contribution year, Canadians must earn more than CAD 3 500 (in 2019) in order to pay into the CPP.

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 7 898 in 2022 is available for individuals aged 65 and over if net income was CAD 39 826 or less. The amount of the age credit is reduced at a rate of 15% of individual net income earned between CAD 39 826 and CAD 92 479. 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

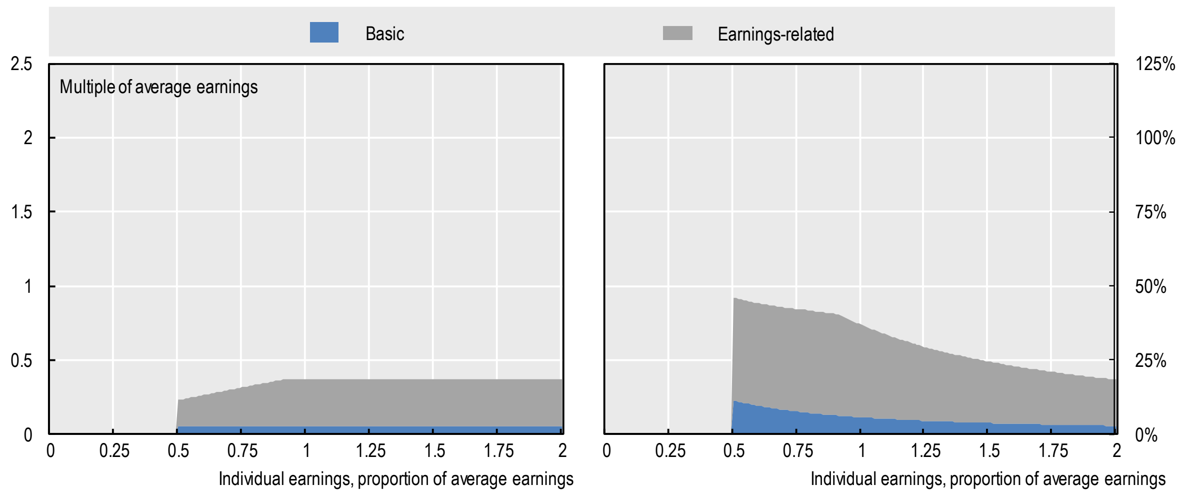
Contributions are mandatory for working CPP retirement pension recipients under the age of 65, but those between the ages of 65 and 70 can choose to stop making contributions. Each year of contributions as a working beneficiary increases retirement income by generating a Post-Retirement Benefit that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

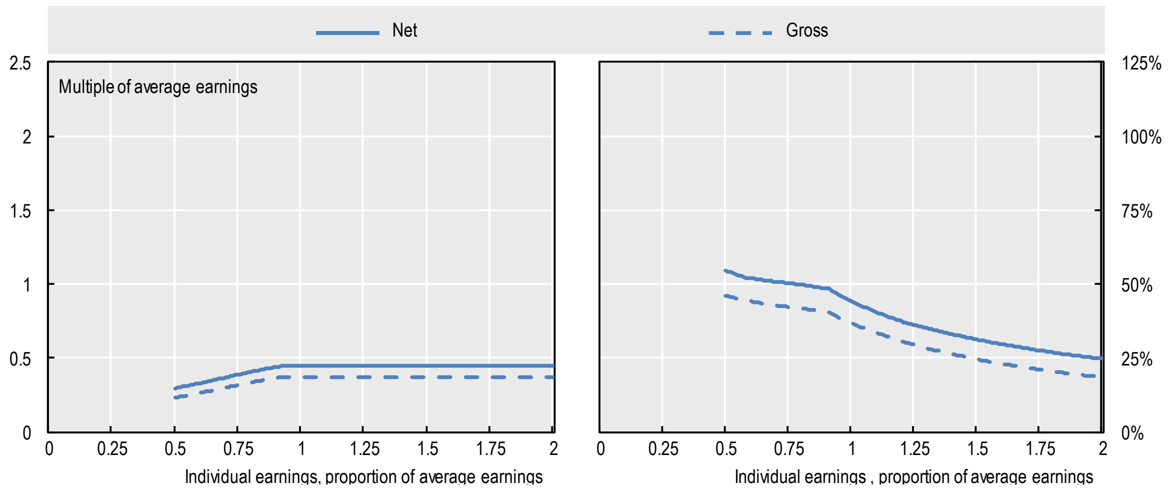
Social security contributions are not levied on pension income.

Pension modelling results: Canada in 2065 retirement at age 65

Gross relative pension level | **Gross replacement rate**



Net and gross relative pension levels | **Net and gross replacement rates**



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	23.0	31.7	36.8	36.8	36.8	36.8
(% average gross earnings)						
Net relative pension level	29.6	38.7	44.2	44.2	44.2	44.2
(% net average earnings)						
Gross replacement rate	46.0	42.2	36.8	24.6	18.4	12.3
(% individual gross earnings)						
Net replacement rate	54.5	50.3	44.2	31.2	24.7	17.9
(% individual net earnings)						
Gross pension wealth	9.5	8.8	7.6	5.1	3.8	2.5
(multiple of individual gross earnings)	10.4	9.5	8.3	5.5	4.1	2.8
Net pension wealth	11.3	10.4	9.2	6.5	5.1	3.7
(multiple of individual net earnings)	12.3	11.3	10.0	7.0	5.6	4.0

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.