



FEDERAL GOVERNMENT PROPOSES TO ALLOW VOLUNTARY CPP CONTRIBUTIONS

On Tuesday, May 26, 2015, Finance Minister Joe Oliver announced to the House of Commons that the federal government is ready to start consulting with experts and stakeholders on allowing voluntary contributions to the Canada Pension Plan (CPP). No details were provided on how the proposed changes would work or on possible contribution limits. Nevertheless, Mr. Oliver confirmed the government's position against a CPP expansion with mandatory employer contribution increases, calling it a "pension tax hike."

PBI has been publicly supporting a Canadian pension reform including CPP enhancements since 2010, when then-Finance Minister Jim Flaherty proposed a modest expansion with support of the provincial governments (see PBI's June 26, 2010 press release here: <http://pbiactuarial.ca/pension-reform-press-release/>). The Federal Government's focus later shifted from the CPP towards creating and improving voluntary saving options such as the creation of Pooled Registered Pension Plans (PRPPs) and tax-free savings accounts. PBI expressed doubt about PRPPs' potential in improving retirement security for Canadians because they are not mandatory and do not require employer contributions (view our 2013 article on the topic here: www.pbiactuarial.ca/wp-content/uploads/2013/04/PRPPVRSP.pdf). Indeed, Canadians already do not make full use of the voluntary retirement saving vehicles available to them for various reasons, including the lack of additional saving room. We now express reservations towards the newly presented *voluntary* CPP "expansion" for the very same reasons.

Though not ideal in comparison to a mandatory CPP expansion with increased CPP payouts for all, opening the CPP to voluntary contributions would still provide better retirement security to workers without a Defined Benefit pension plan than PRPPs or individual savings. It would provide plan members making optional additional contributions with a bigger inflation-indexed pension. There are also small modifications that could be made to the proposed voluntary "expansion" that could make it more efficient.

PBI believes that, at the very least, employers should be required to match 50% of employee contributions. Ideally, just like we previously suggested with PRPPs, legislation around voluntary CPP contributions should require matching contributions from employers. This proposed change is unlikely, as the Conservative government made its position against mandatory employer contributions clear in its May 26 statements.

Additionally, if not mandatory for all, CPP contribution increases should at least be mandatory for members and employers without an established workplace pension plan. New legislation should include both a minimum and maximum premium increase. Recent criticism of the CPP and Old Age Security in Canada holds that the current system will be insufficient to keep up standards of living for middle-class families once their earning years are done. The maximum payment in 2015 based on retirement at age 65 was \$1,065 per month.

During the consultation period, PBI will make efforts to promote the above changes to the voluntary CPP expansion proposal as we believe that, without these changes, the option for additional contributions will become another inefficient layer of Canada's retirement program.

ABOUT PBI

PBI Actuarial Consultants Ltd. is a dynamic and growing company focused on providing actuarial, administrative and investment consulting services for pension and benefit plans, as well as various trust funds. PBI serves clients across Canada from offices in Vancouver, Montreal and Toronto with a focus on multi-employer plans, non-profit and public sector organizations.

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