

# **The 1997 Canada Pension Plan Changes: Implications for Women and Men**

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## **ABSTRACT**

In 1996, federal and provincial governments pledged that Canada Pension Plan (CPP) changes would be “fair...between men and women.” In this research paper for Status of Women Canada, results from the federal government’s CPP simulation model are presented showing that the contribution and benefit changes announced in 1997 disadvantage women relative to men. Similar, but not identical, changes were made to the parallel Quebec Pension Plan (QPP). Results from the QPP’s simulation model show that the contribution changes favour men in the long run. However, on the benefit side, men lose more from the QPP changes than do women. In the conclusion of the paper, governments are urged to improve the Canada Pension Plan/Quebec Pension Plan review process by legislating a commitment to gender analysis of any future reform proposals.



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## ACRONYMS AND ABBREVIATIONS

CPP	Canada Pension Plan
EI	Employment Insurance
FPTCS	Federal/Provincial/Territorial Canada Pension Plan Consultation Secretariat
FPTGC	Federal, Provincial and Territorial Governments of Canada
FPTMF	Federal, Provincial and Territorial Ministers of Finance
GIS	Guaranteed Income Supplement
HRDC	Human Resources Development Canada
LICO	Low-income cut-off
LIM	Low-income measure
MBM	Market basket measure
OAS	Old Age Security
OCA	Office of the Chief Actuary
OSFI	Office of the Superintendent of Financial Institutions
QPP	Quebec Pension Plan
RRQ	Régie des rentes du Québec
RRSP	Registered Retirement Savings Plan
YBE	Year's Basic Exemption
YMPE	Year's Maximum Pensionable Earnings

## PREFACE

Good public policy depends on good policy research. In recognition of this, Status of Women Canada instituted the Policy Research Fund in 1996. It supports independent policy research on issues linked to the public policy agenda and in need of gender-based analysis. Our objective is to enhance public debate on gender equality issues to enable individuals, organizations, policy makers and policy analysts to participate more effectively in the development of policy.

The focus of the research may be on long-term, emerging policy issues or short-term, urgent policy issues that require an analysis of their gender implications. Funding is awarded through an open, competitive call for proposals. A non-governmental, external committee plays a key role in identifying policy research priorities, selecting research proposals for funding and evaluating the final reports.

This policy research paper was proposed and developed under a call for proposals in September 2000, entitled *Women's Access to Sustained Employment with Adequate Benefits: Public Policy Solutions*. This study investigates the effects of changes to the Canada Pension Plan (CPP) contributions and benefits made in 1997, focussing on the effect of freezing the Year's Basic Exemption. The report stresses the importance of gender analysis in the federal-provincial CPP review process, and suggests that, in future CPP reviews, a gender implications report on policy options be released before public consultations are held and federal-provincial agreement on changes has been reached

Other research projects funded by Status of Women Canada on this theme examine issues such as policy options for women in non-standard employment, improving working conditions among home day care providers, and supports for single mothers and women with a disability, among others.

A complete list of the research projects funded under this call for proposals is included at the end of this report.

We thank all the researchers for their contribution to the public policy debate.



## EXECUTIVE SUMMARY

### Background

In October 1996, federal and provincial ministers of finance affirmed that “solutions to the Canada Pension Plan’s problems must be fair...between men and women” (FPTMF 1996). In February 1997, the federal government and all provinces except British Columbia and Saskatchewan agreed to refinance the Canada Pension Plan (CPP) by accelerating contribution increases and reducing benefits.

When governments announced their CPP accord, they released a report, *Gender Implications of Changes to the Canada Pension Plan* (FPTGC 1997) in which they argued that the changes were fair. The changes would preserve the CPP, which would still work to women’s advantage when their total benefits relative to contributions were compared to the lower benefit/contribution ratio for men.

### Main Findings

The contention that the 1997 CPP changes were fair for women is refuted in this paper. Women will lose proportionately more benefits than men and also reap lower contribution savings over the long run.

Women live longer than men, on average, and collect over 90% of surviving spouses’ benefits. CPP survivor benefits are vital for elderly widows with limited incomes from other sources. Almost half of single women aged 65 and over have incomes below Statistics Canada’s before-tax low income cut-off.

Thus, it is unfortunate that the 1997 CPP accord will result in surviving spouses’ benefits being reduced over the long run by more than retirement or disability benefits. Total CPP benefit reductions will be proportionately larger for women than men primarily because reductions in surviving spouses’ benefits will be larger than reductions in other benefits, and women receive the lion’s share of surviving spouses’ benefits.

As a result of the 1997 CPP accord, contributions will fall in the long run. But, women will save less than men. And, until 2017, total contributions will be higher while the CPP is refinanced. Throughout the refinancing period, women will face larger contribution increases than men.

A significant portion of the contribution increases stems from de-indexing the Year’s Basic Exemption (YBE). Formerly, the YBE grew with average earnings. The YBE is now frozen at the 1997 level of \$3,500. The result is that those with low annual earnings face the largest contribution increases. Women, youths aged 18 to 24, part-time workers and the self-employed are overrepresented in this group of low earners facing the largest CPP contribution increases.

Increases to the employer half of CPP contributions raise labour costs and reduce demand for labour at least over the short run. Employer contribution increases are largest for workers with low annual earnings. As a result, groups with below-average earnings — women, youth and part-time workers — bear the brunt of job losses resulting from higher employer CPP contributions.

The case for the 1997 CPP changes being fair rests on the narrow criteria of the lifetime CPP benefit/contribution ratio remaining higher for women than men. The effects of the 1997 changes on CPP contributions and benefits for women relative to men must be considered in the broader context of relatively low earnings for many women in the paid work force and low incomes for many women after retirement.

### **Recommendations**

Organizations interested in gender fairness should pursue a two-track strategy to undo the damage done to women by the 1997 CPP changes.

The first track should be aimed at upgrading gender analysis in the federal–provincial CPP review process. Governments should pledge that, in future CPP reviews, a gender implications report on policy options will be released before public consultations and federal–provincial agreement on any changes.

The second track should be aimed at changing CPP policy. In the latest official projection, the Chief Actuary reports that a permanent contribution rate of 9.8% with a frozen YBE would be consistent with long-run financial stability. The rate scheduled in the 1997 agreement is 9.9%. Organizations interested in gender fairness should ask the Chief Actuary to report whether a YBE increase and a 9.9% rate would also be consistent with long-run financial stability. The precedent should be established of considering a YBE increase as an alternative to a rate cut.

### **Quebec Pension Plan**

The CPP covers Canadians everywhere except Quebec. The CPP and Quebec Pension Plan (QPP) are almost identical. The 1997 CPP changes were mirrored by nearly identical QPP changes on the contribution side. YBE de-indexing subjects women, youth and others with low earnings to the largest increases in QPP contributions during the transitional period required to refinance the QPP. In the long run, the 1997 changes will result in lower QPP contributions. But, savings will be lowest for women, young people and others with below-average earnings.

On the benefit side, the 1997 QPP changes were not as dramatic as the CPP changes. Long-run QPP expenditure reductions are almost entirely attributable to retirement benefit reductions. As a result, men's QPP benefits will be reduced a bit more than women's benefits over the long run.

The recommendation to entrench gender analysis in the review process applies to both the QPP and CPP.

## 1. OVERVIEW

In 1995, the Chief Actuary at the Office of Superintendent of Financial Institutions (OSFI) Canada released the *15th Canada Pension Plan (CPP) Actuarial Report* (OCA 1995). The Chief Actuary projected annual contribution totals to 2016 under the contribution schedule then in place as well as annual expenditure totals under the benefit rules then in place. After reviewing the projection, federal and provincial governments would decide on:

- contribution rates for 2017 to 2021;
- any adjustments to the rate schedule for 1997 to 2016; and
- any adjustments to other CPP provisions.

In the event that governments could not reach agreement, the CPP act contained a “failsafe” provision to set contribution rates for 2017 to 2021 such that the CPP reserve fund at the end of 2021 would equal two times annual expenditures. Even if governments never agreed again, the “failsafe” provision was designed to maintain a rolling 25-year contribution schedule anchored by a target fund/expenditure ratio of two.

However, in his 1995 report, the Chief Actuary projected that by 2015, under the prevailing benefit rules and contribution schedule, expenditure obligations would exceed annual revenue and the reserve fund would be exhausted. If governments did not agree on CPP adjustments, the “failsafe” provision would kick in and bring the reserve fund back to the target level of two years’ worth of expenditures by 2021. But, in the meantime, the CPP would experience a few years during which contributions would not be sufficient to finance expenditures and the reserve fund would be exhausted.<sup>1</sup>

The projection put some pressure on governments to agree on CPP amendments in 1997. Governments still would have had three more CPP reviews — in 2002, 2007 and 2012 — to reach agreement before the reserve fund was projected to run out. However, if governments had not reached agreement during the 1997 CPP round, they would have been open to criticism that they were leaving a problem to future administrations.

In February 1997, the federal government and all provinces except British Columbia and Saskatchewan<sup>2</sup> agreed on Canada Pension Plan changes that took effect on January 1, 1998. The package of changes can be summarized as follows. An increase in the contribution rate is being phased in rapidly over 1997 to 2003. As a result, total contributions are expected to remain higher than previously scheduled through 2017. A permanent reduction in benefits is being phased in gradually. Those who start their CPP benefits after 1997 receive lower payments than they would have under the previous rules. Over the longer term, as the benefit reduction phases in, annual contributions will fall below the levels that would have been required if the 1997 package had not been implemented.<sup>3</sup>

The objectives of this paper are to:

- assess whether the 1997 package was consistent with the pledge by federal and provincial Ministers of Finance that CPP changes would be “fair...between men and women” (FPTMF 1996);
- identify the consequences of the 1997 CPP accord for groups already facing labour market or income disadvantages (e.g., working women as well as youth workers, part-time workers, the self-employed and single elderly persons of both genders); and
- propose steps to ensure that future CPP changes are consistent with gender fairness.

Governments have already put forward their own assessment of whether the CPP changes treat men and women fairly. Federal, provincial and territorial governments released a report, *Gender Implications of Changes to the Canada Pension Plan*, in 1997 (FPTGC 1997).

Governments admitted that the 1997 changes would hit women harder than men. According to estimates presented in that report, lifetime CPP benefits for women born in 1979 will fall by 10.9% compared to a 9.3% fall for men born in the same year.<sup>4</sup> As a result of these benefit cuts, the current generation of young workers will end up paying lower CPP contributions over their lifetime. Higher contributions through at least 2016 will be offset thereafter by lower contributions for most workers.

Even though CPP benefits for women will fall by more than benefits for men, the long-run contribution savings will be less for women than men. According to the 1997 *Gender Implications* estimates, the average man born in 1979 will pay 10.3% less to the CPP over the course of his lifetime, while the average woman will save only 8.7%.

As a result, CPP benefits relative to contributions will fall for the average woman and rise for the average man. The estimates in the 1997 *Gender Implications* report are shown in Table 1.

**Table 1: Impact of CPP Changes on Representative Cohort Born in 1979**

	CPP: Pre-1997 Rules		CPP: New Rules	
	Women	Men	Women	Men
Lifetime Benefits	\$272,100	\$212,960	\$242,550	\$193,080
Lifetime Contributions	\$103,750	\$158,590	\$94,740	\$142,280
Benefit/Cont. Ratio	2.62	1.34	2.56	1.36

Source: FPTGC (1997), tables on pages 4 and 7.

The authors of the *Gender Implications* report valued lifetime benefits and contributions in 1997 dollars after adjusting for projected inflation. Benefits were assigned by gender, based on the individual who receives the payment. In other words, there was no attempt to value the psychological comfort the first spouse to die may have received during his or her lifetime from knowing that the CPP provides insurance coverage in the form of surviving spouse benefits. Nor was there any attempt to estimate the extent to which spouses share each other's benefits while both are alive. The authors did acknowledge that benefits are shared in some

sense by most couples. The individual-based accounting approach was used because of the difficulty of measuring the value that one spouse attaches to benefits received by the other spouse. I adopt the same individual-based accounting approach in this paper.

In other words, the authors of the *Gender Implications* report admitted that the 1997 CPP changes would work against women. However, they emphasized the benefit/contribution advantage women enjoyed over men under the pre-1997 rules. They identified five reasons for the CPP advantage for women.

- Because women live longer, on average, than men, women collect monthly CPP retirement benefits for longer periods than men.
- In most couples, the man is older than the woman. When combined with women's longer lifespan, this means women are more likely to collect surviving spouses' benefits than men. For example, 86% of the 1.3 million CPP surviving spouse beneficiaries are women (HRDC 2001b: Table 13T).
- The CPP benefit formula is tilted slightly in favour of those with low lifetime earnings. Benefits are based on past earnings, not on past contributions above the Year's Basic Exemption (YBE) level of \$3,500 at which contributions begin. On average, women have lower lifetime earnings than men and are more likely to benefit from the progressive tilt in the formula.
- Women are much more likely than men to drop out of the full-time paid work force while their children are young. The benefit calculation contains a provision that ignores a parent's earnings during the years when children are aged seven or younger if the deletion works to the advantage of the CPP member. Women are much more likely than men to take advantage of this child-rearing drop-out component of the benefit formula.
- Disability benefits consist of an earnings-related component and a flat-rate component. The flat-rate benefit ensures that disability benefits relative to past contributions are greater for those with below-average earnings (e.g., women).

After the 1997 changes, two of these CPP advantages for women would be reduced: surviving spouses' benefits and the impact of the YBE. Nevertheless, the concluding paragraph of the *Gender Implications* report was reassuring:

After the changes, women will continue to receive better value for their contributions on average than men. Men will continue to pay proportionately higher contributions than women for what they receive in benefits, and conversely women will continue to receive proportionately more than men for what they pay in contributions (FPTGC 1997: 13).

In the next three chapters, additional information is presented to supplement the data shown in the 1997 *Gender Implications* report. In that report, the gender impact of the CPP changes was shown on a lifetime basis for those born in 1979 and for all contributors and beneficiaries in a single year — 2030.<sup>5</sup> For this paper, the CPP modelling team at the Office of the Chief Actuary

(OCA) in OSFI Canada provided simulation results showing projected contributions and benefits by gender for each year from 1998 to 2100 under both the new CPP rules and the pre-1997 rules. The effects of the 1997 changes on total contributions by women and men are presented and explained in Chapter 2. In Chapter 3, I discuss the job market implications for women and men of CPP contribution changes, a topic that was not covered in the 1997 *Gender Implications* report. The projected effects of the 1997 changes on total CPP benefits payable to women and men are presented and explained in Chapter 4.

## 2. GENDER IMPACT OF CONTRIBUTION CHANGES

In the *Gender Implications* report, governments presented estimates of the long-run effect of CPP contribution changes. They projected that, on average, women working in 2030 would end up paying 20.2% less in CPP contributions as a result of the 1997 changes. This would compare with a 21.9% reduction for men. Over a complete working life, the average woman who turned 18 in 1997 was expected to pay 8.7% less to the CPP, while the average man was expected to pay 10.3% less.

By focussing on the long-run impact, the authors of the 1997 *Gender Implications* report shifted attention away from the rise in contributions over the first 20 years. They did mention the rise in the contribution rate from 1997 to 2003 and the YBE change. But, they presented annual gender impact estimates only for 2030, when contributions will be significantly lower for both men and women.

In Table 2, I present estimates from the federal CPP simulation model of the percentage changes in CPP contributions from 1998 to 2100. Both men and women face higher contributions until 2016. From 2017 on, men will pay lower contributions than would have been the case in the absence of the 1997 changes. For women, contribution savings will not show up until one year later in 2018.

In each year of the transitional period needed to refinance the CPP, the percentage increase in contributions will be larger for women than men. And, when long-run contribution savings emerge, women will save less than men.

### **Why Do Women Fare Worse than Men?**

To understand why women do worse than men in Table 2, we need to look at the impact of CPP contribution changes by annual earnings level. In Table 3, the percentage changes in CPP contributions resulting from the 1997 accord are shown for workers with selected earning levels in 2001 and three other significant years:

- 2003 when the long-run contribution rate of 9.9% will be reached under the new schedule;
- 2015 when the rate would have reached 9.9% under the old CPP schedule; and
- 2030, the year used in the 1997 *Gender Implications* report to illustrate long-run contribution savings.

During the period to 2016 when all workers will be paying more to the CPP as a result of the 1997 changes, workers close to the bottom of the annual earnings distribution will be hit much harder by contribution increases. And, when contribution savings finally emerge in aggregate, reductions will be much less significant for workers with low annual earnings. In fact, contribution savings will never materialize at earnings levels just above the \$3,500 YBE. In 2030, workers earning between \$3,500 and \$22,843 will still be paying more to the CPP than they would have under the pre-1997 rules.<sup>6</sup>

**Table 2: Impact of 1997 Changes on CPP Contributions by Gender**

Calendar Year	Change in Total Contributions		
	Women %	Men %	All %
1998	5.5	5.4	5.4
2001	28.1	27.6	27.8
2003	38.5	37.8	38.1
2005	31.1	30.1	30.5
2010	18.9	17.4	18.0
2015	9.2	7.5	8.2
2017	1.4	-0.2	0.5
2018	-0.5	-2.1	-1.5
2030	-16.8	-18.4	-17.8
2050	-17.1	-18.8	-18.0
2100	-19.0	-20.2	-19.7

Notes: Simulations of CPP contributions under the new CPP rules and pre-1997 rules were based on the actuarial assumptions used in the *17th CPP Actuarial Report* (OCA 1998). The 18th report (OCA 2001) was not available when the simulations for this paper were carried out. Contributions under the pre-1997 rules were based on scheduled contribution rates to 2016 as set out in the pre-1997 CPP. For years after 2016, the CPP actuaries assumed that contributions under the pre-1997 rules would be generated by the contribution rate set equal to the “pay as you go” rate required to finance CPP spending each year. The figures for 2030 in this table differ slightly from estimates published in the 1997 *Gender Implications* report because the actuarial assumptions in the 1998 *17th CPP Actuarial Report* differ slightly from those used in 1997.

Source: Author’s calculations from CPP simulation results provided by OCA at OSFI Canada. I am responsible for any errors presenting or interpreting the CPP simulation data in this paper.

**Table 3: Change in CPP Contributions by Earnings Level**

Annual Earnings (Real 2001 \$)	2001 %	2003 %	2015 %	2030 %
5,000	56.9	90.7	210.5	2,094.5
10,000	31.6	45.2	27.7	15.1
15,000	28.9	40.5	14.8	-5.7
20,000	27.9	38.7	10.1	-12.7
25,000	27.3	37.8	7.7	-16.2
30,000	27.0	37.2	6.2	-18.4
35,000	26.8	36.8	5.2	-19.8
40,000	26.6	36.6	4.5	-20.8
50,000 and up	26.6	36.6	4.1	-22.1

Notes: Real, inflation-adjusted earnings levels are projected forward assuming annual inflation averages 2%. Contributions under the pre-1997 rules are calculated with the YBE projections in Table 4.<sup>7</sup>

Source: Author’s calculations.



Governments defended the 1997 CPP changes as necessary to improve intergenerational fairness. The current generation of workers would pay higher contributions over the next several years to reduce the contribution burden facing future generations.

But, at the bottom of the earnings distribution, the 1997 changes are a permanent lose/lose proposition. Workers with low earnings today are facing the largest contribution increases. And, workers with low earnings in 2030 will still be facing a higher contribution burden than if the 1997 changes had not taken place.<sup>8</sup>

The results in Table 2 showing women disadvantaged relative to men by the 1997 changes to CPP contributions are due to two underlying factors:

- the regressive impact of the CPP contribution changes as shown in Table 3; and
- the gender gap in annual earnings.

The gender gap in annual earnings has closed slowly over time.<sup>9</sup> But, women still earn less than men on average. The average female CPP contributor earned \$26,263 in 1999, the last year for which statistics are available. The average male contributor earned \$37,709. Therefore, women with their lower average earnings are now being hit harder than men by the regressive CPP contribution increases.

In the long-run projection, the CPP actuaries assume that the gender earnings gap will continue to diminish gradually. But, according to the actuarial assumption, the gap will still not be closed entirely by the end of this century. As a result, future generations of women will save less than men from the regressive contribution changes put in place in 1997.

### **Why Are the Contribution Changes Regressive?**

The regressive impact of CPP contribution changes can be traced back to the decision to de-index the YBE. From now on, the YBE will remain fixed at the 1997 value of \$3,500. Under the previous CPP rule, the YBE was set equal to 10% of the Year's Maximum Pensionable Earnings (YMPE) ceiling on contributions, rounded down to the nearest \$100. The YMPE is intended to approximate the average earnings of full-time, full-year workers. The YMPE rises automatically each year in line with annual growth in average earnings. Therefore, under the previous formula in place up until 1997, the YBE also rose each year with average earnings.

In Table 4, projected YBE levels are shown if the previous CPP rule had remained in place.

As earnings grow over time, the YBE — frozen at \$3,500 — will fall as a percentage of the YMPE, which represents average full-time, full-year earnings. By 2030, the YBE will have fallen to 4% of average full-time, full-year earnings, down from 10% in 1997.

YBE de-indexing will steadily expand the CPP tax base over time. Broadening the CPP tax base is occurring at the bottom end of the earnings distribution. As a result, contribution increases for the next 20 years or so after the 1997 changes will be greater for women and

other groups with below-average annual earnings. And, the contribution savings to emerge over the long run will be lower for women and other groups with relatively low earnings.<sup>10</sup>

**Table 4: Projected YBE Growth Under Previous CPP Rule**

<b>Calendar Year</b>	<b>Projected YBE \$</b>
1997	3,500
2001	3,800
2002	3,900
2005	4,200
2010	4,900
2015	5,600
2030	8,700

Note: YBE projections under the pre-1997 rule are based on YMPE projections assuming 1% annual growth in real earnings and a 2% annual price inflation.

Source: Author's calculations.

### **3. JOB GROWTH REDUCTIONS DUE TO CONTRIBUTION INCREASES**

In Table 2, we see the impact of CPP contribution changes on men and women. In Table 3, we see the regressive impact of the changes as we move up the annual earnings scale. The estimates in tables 2 and 3 apply to CPP contributions by both employees and employers. In 2001, every employee aged 18 and up loses 4.3% of annual gross earnings between \$3,500 and \$38,300 to payroll deductions paid to the CPP. Employers must match employee deductions. Under the pre-1997 rules, employees and employers would each have contributed 3.425% of individual earnings between \$3,800 and \$38,300 to the CPP in 2001. Thus, the percentage increases in CPP contributions shown in tables 2 and 3 are the same for both the employee and employer portions.

The economic effects of CPP contribution changes depend on how payroll taxes are ultimately shared between employees and employers. The legal responsibility for CPP contributions is split evenly between employees and their employers. But, the ultimate economic effect on employees and employers can differ from the 50/50 legal responsibility if:

- workers can pass the burden of employee taxes to employers in the form of higher wage or fringe benefit demands; or
- companies can pass the burden of employer taxes to employees in the form of lower wages or fringe benefits.

#### **Short-Run vs. Long-Run Effects of Employer Contribution Increases**

There is a consensus in economic studies of tax incidence that the employee portion of payroll taxes is borne by workers.<sup>11</sup> There is more debate over the impact of the employer portion of payroll taxes. The consensus view is that there is a difference between the short- and long-run impacts of employer payroll taxes. In the short run, labour contracts and wages are not fully flexible. Thus, the immediate effects of higher employer payroll taxes are higher labour costs, lower demand for labour and lower employment. Estimates of this adjustment period during which employer payroll tax increases can constrain employment vary from one to five years. In the longer run, a larger portion of employer payroll taxes is ultimately borne by employees in the form of slower growth in negotiated wages and employer-paid benefits.<sup>12</sup>

Under the terms of the 1997 CPP accord, contributions relative to the previous schedule rise sharply each and every year through 2003. By announcing this schedule of increases in 1997, governments did their best to give employers and employees time to allow for rising CPP contributions in wage negotiations. However, the increases from 1997 to 2003 are steep. Rapidly rising employer contributions to the CPP may not be incorporated into the wage structure smoothly and rapidly.

Rising CPP contributions will likely constrain job growth. In a report for the C.D. Howe Research Institute, Professor Peter Dungan (1998) of the University of Toronto's Institute for Policy Analysis estimated the impact of CPP contribution increases. According to Professor Dungan, total employment would be 125,000 to 139,000 jobs lower than would

have otherwise been the case in 2001 because of higher CPP contributions. The CPP effect on job growth will peak at 193,000 to 250,000 jobs in 2003.<sup>13</sup>

### **Whose Jobs Will Be Lost?**

The CPP effect on job growth can be divided into two components:

- reduced job growth due to higher employee contributions reducing growth in demand for goods and services by Canadian consumers<sup>14</sup>; and
- reduced growth in demand to hire and retain workers due to higher employer contributions raising labour costs facing employers at least in the short and medium term.

The employment impact by gender of CPP-induced changes in consumer demand growth is not known. There has been little in the way of Canadian research on how aggregate demand changes affect employment for women and men. In this particular case, a macroeconomist would have to trace the regressive increases in employee CPP contributions shown in Table 3 through to their effect on the composition of consumer demand and job growth in sectors affected by reduced demand. Until such a macroeconomic study is done, there is no basis for thinking that either women or men bear a disproportionate share of the job growth reductions caused by higher employee CPP contributions.

However, there are grounds for believing that women bear a disproportionate share of the job growth reductions arising from higher employer CPP contributions. As was shown in Table 2, employer contributions on behalf of women will be 38.5% higher in 2003 than would have been the case under the pre-1997 rules. Employer contributions for men will be 37.8% higher. As was shown in Table 3, the largest percentage increases in employer CPP contributions will be for workers with low annual earnings. Women earn less than men on average and are overrepresented in the bottom half of the annual earnings scale where employer CPP contribution increases are largest. In other words, the short- to medium-term effect of employer CPP contribution increases on labour costs will be greater, on average, for women workers than men. The presumption must be that women will suffer a disproportionate share of the job growth reductions resulting from the employer portion of the CPP contribution increase.

The gender impact results reported in Table 2 can also be broken down by age group. In Table 5, contribution increases, relative to the pre-1997 rules, are shown by gender and age group for 2001, 2003, 2018 and 2030.

The underlying cause for young workers aged 18 to 24 being hit particularly hard by CPP contribution changes is the same as for women being hit harder than men. YBE de-indexing ensures that employee and employer contribution increases are largest for those with relatively low annual earnings. Younger workers aged 18 to 24 have much lower annual earnings, on average, than older workers aged 25 and up. As shown in tables 6 and 7:

- the earnings gap between younger and older workers is even larger than the gap between men and women; and

- the gender earnings gap is present even for younger workers aged 18 to 24 so young women have lower average earnings than any other age/gender group.

**Table 5: Impact of 1997 Changes on CPP Contributions by Gender and Age Group**

	2001 %	2003 %	2018 %	2030 %
Female CPP Contributors				
Aged 18-24	31.0	42.9	10.7	-4.1
Aged 25+	27.9	38.2	-1.2	-17.6
All ages	28.1	38.5	-0.5	-16.8
Male CPP Contributors				
Aged 18-24	29.8	41.1	6.6	-8.3
Aged 25+	27.4	37.5	-2.7	-19.1
All ages	27.6	37.8	-2.1	-18.4
All CPP Contributors				
Aged 18-24	30.2	41.8	8.3	-6.5
Aged 25+	27.6	37.8	-2.1	-18.5
All ages	27.8	38.1	-1.5	-17.8

Notes: 2018 is shown in Table 5 as the first year that both women and men aged 25 and up will reap contribution savings from the 1997 changes. Annual savings will not appear for young men aged 18 to 24 until 2022 and not for young women until 2025.

Source: Author's calculations from CPP simulation results provided by the OCA.

**Table 6: Average Annual Earnings of CPP Contributors, 1998**

Age Groups	Women \$	Men \$	Both \$
18-24	11,612	14,856	13,344
25+	27,652	40,049	34,437
All Ages	25,467	36,775	31,636

Notes: 1998 CPP data are used to maintain comparability with QPP data in Appendix A. 1999 QPP data on earnings of contributors are not yet available.

Source: HRDC (2001a) and author's calculations for earnings of adults aged 25 and up.

**Table 7: Annual Earnings Ratios by Gender and Age Group, 1998**

	Gender Earnings Ratio (Women/Men)		
	Youths 18-24	Adults 25+	All
	%	%	%
CPP Contributors	78	69	69
	Age Earnings Ratio (Youth/Adult)		
	Women	Men	Both
	%	%	%
CPP Contributors	42	37	39

Source: Author's calculations from Table 6.

Younger workers have low annual earnings on average because hourly wages tend to be lower until workers have built up work experience and skills. In addition, youth workers often prefer flexible arrangements such as part-time shifts and seasonal employment as they balance work and education. Thus, women are not the only group with low average earnings who will suffer a disproportionate share of job growth reductions caused by CPP employer contribution increases. Youths aged 18 to 24, both women and men, will also be hit.

Reduced job growth for young men and women is particularly unfortunate. The youth unemployment rate has always been about double the adult rate. As a result of the regressive impact of CPP employer contribution increases, young people aged 18 to 24 will have fewer job opportunities as they try to finance their education and start their careers.

Annual earnings of part-time and part-year workers are similar to annual earnings of young workers.

**Table 8: Average Annual Earnings by Gender and Type of Worker, 1998**

Type of Worker	Average Annual Earnings		
	Women	Men	Earnings Ratio (Women/Men) %
Other (i.e., part time and/or part year)	\$11,448	\$15,354	75
Full time and full year	\$32,553	\$45,070	72
All	\$21,999	\$34,171	64
Earnings ratio (other/full time, full year)	35%	34%	N/A

Notes: Tables 6 and 8 are not directly comparable because they are derived from two different sources. Table 8 includes Quebec workers, who are not part of Table 6.

Source: Statistics Canada (2001b); author's calculations of earnings ratios.

A breakdown of CPP contributors between full-time, full-year workers and other workers is not available. Therefore, a precise estimate of the effect of the 1997 contribution changes on part-time and/or part-year workers is not possible. However, an approximate indication of the impact is shown in Table 9. CPP contribution increases in 1998 at the average earnings levels for full-time, full-year and other workers can be calculated. And, the contribution increases in 2001 and 2003 can be extrapolated by assuming all workers' earnings have grown at the same rates since 1998 and will grow at the same rates through 2003.

Women working part time and/or part year face the highest CPP contribution increases of any group shown in Table 9. Women are much more likely than men to be working part time and/or part year. Women accounted for 56% of part-time and/or part-year workers in 1998 compared to just 40% of full-time, full-year workers. In particular, adult women aged 25 and up are more likely than adult men to work part time. Thus, Table 9 indicates that women of all ages working part time and/or part year bear a disproportionate share of the job growth reductions caused by employer CPP contribution increases.

**Table 9: Estimated CPP Contribution Increases for Different Types of Workers**

	1998 %	2001 %	2003 %
Women			
Other workers (i.e., part time and/or part year)	6.3	30.1	42.4
Full-time, full-year workers	5.3	26.8	36.8
Men			
Other workers (i.e., part time and/or part year)	5.8	28.6	39.8
Full-time, full-year workers	5.2	26.6	36.6

Notes: 1998 estimates calculated by applying pre-1997 and new contribution rules to average earnings for different types of workers as reported in Table 8. 2001 estimates calculated by assuming that average earnings for all types of workers grew by 1.0% for all workers in 1999, 2.3% in 2000 and 1.7% in 2001. 2003 estimates calculated by assuming that average earnings for all types of workers will grow by 3% in each of 2002 and 2003 consistent with 2% annual inflation and 1% real earnings growth. The 2003 results would not be significantly different if the annual earnings growth assumption were varied.

Source: Author's calculations.

### **Impact on Self-Employment**

Self-employment is one alternative when conventional job opportunities are not available. Some of those unable to find conventional jobs may consider starting their own small business ventures. However, the CPP contribution increases that reduced employment growth by an estimated 125,000 to 139,000 jobs in 2001 also make it more difficult to get a self-employed venture off the ground.

Self-employed persons pay both the employee and employer share of CPP contributions. As shown in Table 10, self-employed earnings lag behind earnings for conventional wage and salary workers. The self-employed are another group with below-average earnings suffering above-average CPP contribution increases as a result of the regressive 1997 changes.

Annual earnings are particularly low during the first few years after making a move to self-employment. Thus, many self-employed entrepreneurs during the start-up phase of new ventures face even larger CPP contribution increases than the averages shown in Table 10. CPP contribution increases reduce cash flow and make the transition to self-employment more difficult. Contribution increases are largest for self-employed women, particularly young women aged 18 to 24, because their earnings are below average. Thus, the regressive CPP contribution increases limit conventional job opportunities for women, youths and other below-average earners and, at the same time, make it more difficult to move into self-employment as an alternative.

**Table 10: Estimated CPP Contribution Increases: Self-Employed vs. Wage/Salary Workers**

	Average Earnings, 1998 \$	Change in CPP Contributions Due to 1997 Accord		
		1998 %	2001 %	2003 %
Women aged 18 to 24				
Self-employed	11,025	6.3	30.4	42.8
Wage or salary worker	11,618	6.2	30.0	42.2
Men aged 18 to 24				
Self-employed	13,319	6.0	29.2	40.9
Wage or salary worker	14,884	5.8	28.7	40.0
Women aged 25 and up				
Self-employed	20,041	5.6	27.7	38.4
Wage or salary worker	28,128	5.3	27.0	37.2
Men aged 25 and up				
Self-employed	27,859	5.4	27.0	37.2
Wage or salary worker	41,279	5.2	26.6	36.6

Notes: Method of calculating contribution increases is the same as for Table 9. "Wage or salary worker" includes some CPP contributors who report earnings from both self-employment and wages or salaries.

Sources: HRDC (2001a) for average earnings; author's calculations for contribution increases.



## 4. GENDER IMPACT OF BENEFIT CUTS

The 1997 CPP changes hit women harder than men on both the contribution and benefit ends of the plan. In Chapter 2, the adverse effect on contributions by women relative to men was traced back to the regressive impact of YBE de-indexing. Because women earn less than men on average, YBE de-indexing hits women harder than men. The purpose of Chapter 4 is to explain why women lose a larger percentage of CPP benefits than men as a result of the 1997 changes.

Percentage benefit losses by gender are shown for selected years in Table 11. These updated estimates from the federal CPP simulation model confirm the results previously reported in the 1997 *Gender Implications* report. Women lose more than men. The gap between benefit losses for women and men will grow larger with each passing year. The 1997 benefit cuts phase in gradually. As the years go by, fewer CPP beneficiaries receiving payments under the pre-1997 rules will still be alive. And, more beneficiaries will be receiving payments under the less generous rules implemented after the 1997 accord.

**Table 11: Impact of 1997 Changes on CPP Benefits by Gender**

Calendar Year	Change in Total Benefits Paid		
	Women	Men	All CPP Spending
	%	%	%
1998	-0.1	-0.1	-0.2
2001	-0.8	-0.7	-0.9
2005	-2.3	-2.0	-2.4
2010	-4.2	-3.8	-4.7
2015	-5.7	-4.9	-5.7
2030	-8.1	-6.3	-7.9
2050	-9.1	-6.6	-8.9
2100	-8.9	-6.5	-8.8

Notes: All CPP spending also includes administration expenses, benefits for children of contributors who are deceased or have a disability, as well as death benefits payable to estates when CPP members die. These expenditures are not assigned by gender. The death benefit was cut significantly and immediately for most deceased contributors as part of the package of CPP changes implemented on January 1, 1998. Because death benefits are paid to estates, they are not assigned by gender. Death benefits accounted for less than 2% of total CPP spending in 1997 before the freeze. But, the effect of the death benefit cut kicks in much faster than reductions for other CPP benefits. As a result, the percentage reduction in total CPP spending including death benefits will exceed the reductions in benefits payable to either men or women until 2015 or so.

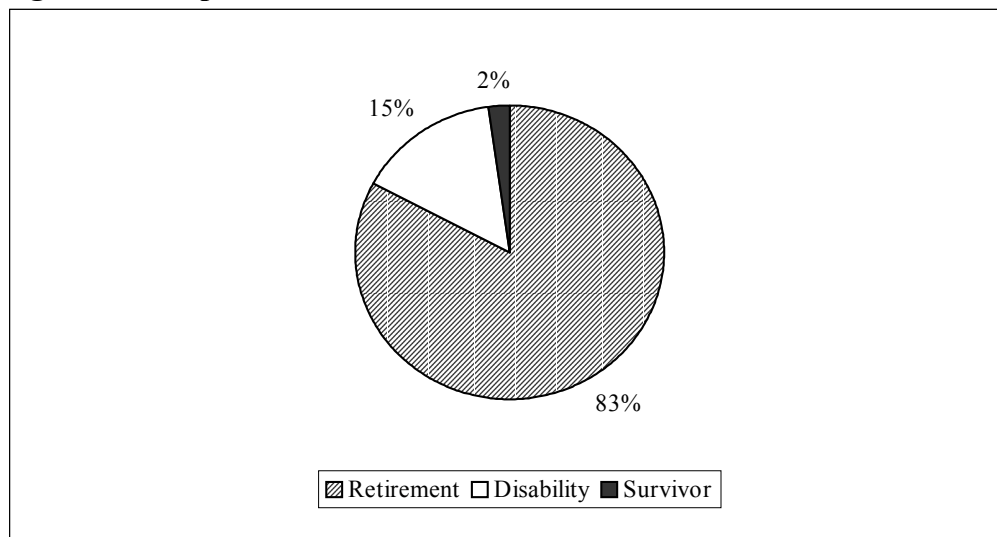
Source: Author's calculations from CPP simulation results provided by the OCA.

### **Why Are Benefit Losses Larger for Women than Men?**

Many people think of the CPP solely as a retirement plan. Younger Canadians in particular may not be aware of ancillary benefits payable to surviving spouses and to former contributors disabled before the normal retirement age of 65.

For men, the CPP is largely a retirement plan. Few men outlive their spouses and collect a survivor benefit. And, in those few cases when the husband outlives the wife, survivor benefits paid to the current generation of elderly widowers are relatively low. Benefits for surviving spouses aged 65 and up are based on the deceased spouse's record of past CPP contributions. Many members of the current generation of senior women spent little time in the paid work force after marriage. As a result, many elderly women do not have much in the way of a CPP contribution record to pass on to surviving husbands. Thus, for men, total CPP retirement benefits are almost 40 times as large as total survivor benefits.

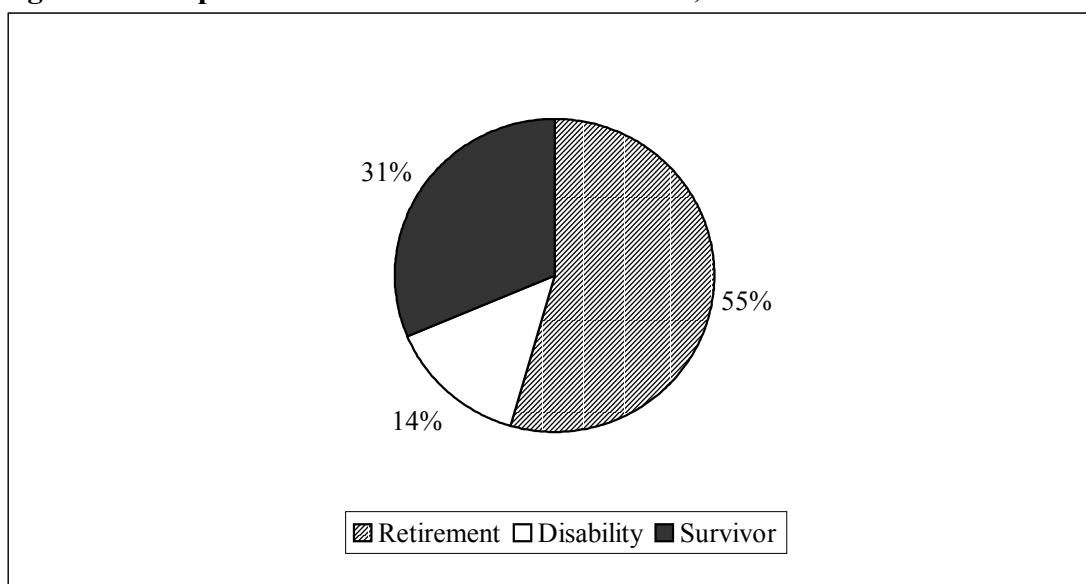
**Figure 1: Composition of CPP Benefits for Men, 1997**



For women, the composition of CPP benefits is very different. Women are much more likely to outlive their husbands and collect survivor benefits. Many members of the current generation of elderly women did not participate in the paid work force long enough to build up significant retirement benefits in their own right. For many elderly widows, CPP survivor benefits outweigh their own retirement benefits.

As a result, CPP survivor benefits are much more significant for women. Total retirement benefits for women exceed total survivor benefits, but the ratio is less than two to one compared to nearly forty to one for men. For women, survivor benefits are twice as important as disability benefits. In contrast, disability benefits paid to men outweigh survivor benefits by more than seven to one.

The larger benefit losses for women in Table 11 can be traced directly back to their larger stake in CPP survivor benefits. Unfortunately for women, of the three principal CPP benefits, survivor benefits will fall the most in percentage terms in the long run as a result of the 1997 changes.

**Figure 2: Composition of CPP Benefits for Women, 1997**

With a much larger stake in survivor benefits — the benefit cut the most by the 1997 changes — women will inevitably lose more than men. Consider the detailed breakdown of benefit reductions in Table 12 for 2030, the year used in the *Gender Implications* study as representative of the long-term impact of the 1997 changes. For women, CPP benefits will be down by 8.05%. This compares with a 6.29% reduction for men. The total percentage losses for women and men in 2030 can be expressed as the sum of the percentage of total benefits for each gender represented by each type of benefit multiplied by the percentage loss for each type of benefit.

**Table 12: Breakdown of 2030 CPP Losses by Gender and Type of Benefit**

Type of CPP Benefit	Women			Men		
	Share of Total Benefits under Pre-1997 Rules %	Loss Due to New Rules %		Share of Total Benefits under Pre-1997 Rules %	Loss Due to New Rules %	
	(a)	(b)	(a*b)	(a)	(b)	(a*b)
Retirement	73.63	-5.02	-3.70	86.11	-4.98	-4.29
Disability	9.37	-17.79	-1.67	11.52	-14.33	-1.65
Survivor	17.00	-15.83	-2.69	2.37	-14.46	-0.34
Total % Loss (sum of a*b)			-8.05	% Loss (sum of a*b)		-6.29

Source: Author's calculations from data provided by the OCA.

The interaction between the 1997 changes and the gender difference in the composition of CPP benefits can be demonstrated by conducting the following hypothetical simulation. In Table 13, the supposition is that the percentage losses for women in each of retirement, disability and survivor benefits were the same as for men.

**Table 13: Simulated Comparison of 2030 CPP Losses if Gender Losses by Type of Benefit Were Equivalent**

Type of CPP Benefit	Women			Men		
	Share of Total Benefits under Pre-1997 Rules	Simulated Loss Due to New Rules = Actual Loss for Men		Share of Total Benefits under Pre-1997 Rules	Actual Loss Due to New Rules	
	% (a)	% (b)	% (a*b)	% (a)	% (b)	% (a*b)
Retirement	73.63	-4.98	-3.67	86.11	-4.98	-4.29
Disability	9.37	-14.33	-1.34	11.52	-14.33	-1.65
Survivor	17.00	-14.46	-2.46	2.37	-14.46	-0.34
Total % Loss (sum of a*b)			-7.47	% Loss (sum of a*b)		-6.29

Source: Author's calculations

It would still be the case that women's overall CPP losses in 2030 would exceed men's losses by a wide margin. The different gender impacts for each type of CPP benefit explain only 0.58 percentage points — 8.05% vs. 7.47% — of the overall 1.76 percentage point gap between the CPP loss for women and men.

Of those 0.58 percentage points, 0.33 points are attributable to women losing more disability benefits than men — 1.67 percentage points due to disability benefits in Table 12 vs. 1.34 points in Table 13. Up to December 31, 1997, disability recipients had to have worked and contributed to the CPP in two of the previous three years or in five of the past ten years prior to disability. The new threshold requires CPP contributions in four of the past six years. Those who move in and out of the work force and then become disabled are more likely to be denied CPP disability benefits as a result of this rule change. Women, particularly when their children are young, are more likely than men to fit the profile of those who will lose disability benefits as a result of the change in the eligibility threshold.

Another 0.03 points of the gap are due to women losing slightly more retirement benefits than men. The small gender difference in percentage reductions in retirement benefits is due to a change in the formula for converting disability benefits into retirement pensions when beneficiaries turn 65. The larger the gap between age 65 and the age at which the CPP disability benefit was first paid, the greater the retirement benefit reduction resulting from this rule change. Women who go on disability benefits do so at younger ages than men, on average, and are more likely than men to remain on disability benefits until retirement. As a result, this change will affect women's retirement benefits more than men's retirement benefits.

Finally, 0.23 percentage points of the gap are due to a benefit formula adjustment that reduces payments more for female surviving spouses than for male survivors. Ceilings on combined retirement/survivor benefits and disability/survivor benefits were effectively lowered for many surviving spouses as a result of the 1997 CPP accord. The changes to the ceiling rules are more likely to affect female surviving spouses with lower lifetime earning records, on average, than male survivors.<sup>15</sup>

The remaining difference in Table 13 of 1.18 percentage points — 7.47% simulated loss for women vs. 6.29% actual loss for men — is due to the share effect arising from the fact that:

- survivor benefits account for a much higher share of total benefits for women than men (17% vs. 2% in 2030 under the pre-1997 rules); and
- the 16% reduction in 2030 survivor benefits due to the 1997 changes is projected to be much larger than the 6% reduction in the combined total of retirement and disability benefits.

In other words, two thirds of the 1.76 percentage point gap between women's benefit losses and men's losses in 2030 will be due to the fact that the largest cuts were administered to surviving spouse payments, the CPP benefit that primarily goes to women. When the fact that female survivors lose more, on average, than male survivors is factored in, survivor benefit cuts will account for 1.41 percentage points or four fifths of the 1.76 percentage point gap between women's CPP benefit losses and men's losses in 2030.

One defence of the cuts is that CPP benefits are part of an integrated retirement income system. The federal government spends almost as much on the Old Age Security (OAS), Guaranteed Income Supplement (GIS) and Allowance programs as the CPP and the parallel QPP spend on their programs. (See the HRDC public information table included at the end of Appendix A.) The OAS, GIS and the Allowance are all income-tested. The GIS and the Allowance payments decline by 50 cents for every dollar in taxable income from CPP/QPP and sources other than OAS/GIS/Allowance payments. The authors of the 1997 *Gender Implications* (FPTGC 1997: 9) report referred to CPP benefit reductions and argued that:

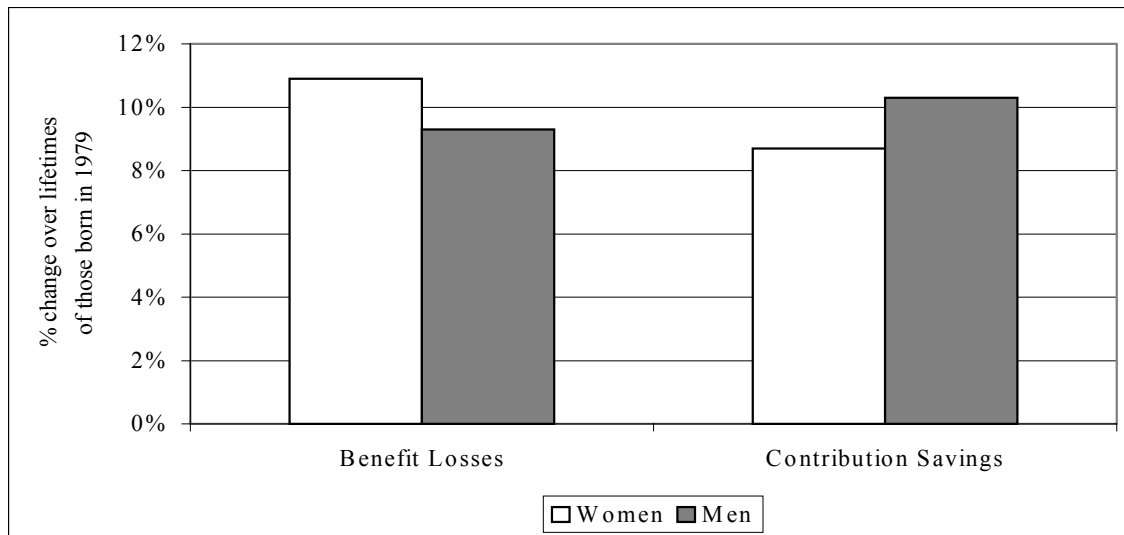
women, more than men, depend more on the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS)... Therefore, more women than men will retain close to the amount of pension income they receive from the existing public pension system.

When challenged in the Senate about future CPP benefit losses for women, particularly elderly women with low incomes from other sources, the federal Minister of Finance pointed to the 1996 federal budget plan to fold OAS, GIS and income tax preferences for seniors into a new program called the Seniors Benefit. The Benefit would have raised monthly benefits outside the CPP for low-income seniors. CPP benefit losses would have been offset to some extent by Seniors Benefit gains. However, Ottawa was forced to abandon the plan in 1998 after opposition from seniors' organizations and the pension investment industry to higher benefit reduction rates for middle-income seniors. Thus, the broader context of other government programs for low-income seniors is no longer as reassuring as in 1997. For widows who lose their husbands after 1997 and bear the largest CPP benefit cuts, the promise of higher seniors benefits is gone.

## 5. WERE THE 1997 CHANGES FAIR?

The authors of the 1997 *Gender Implications* study did their best to place the results within a favourable context. They admitted that the 1997 CPP changes would disadvantage women relative to men on both the contribution and benefit ends of the plan.

**Figure 3: Long-Run Impact of 1997 CPP Changes**



But, they stressed that, on average, women were starting out as winners relative to men under the pre-1997 CPP rules. The 1997 changes would reduce the CPP advantage for women, but would still leave women as overall CPP winners relative to men. Thus, the 1997 changes would be a small price to pay to refinance the CPP and preserve a program that particularly benefits women.

However, the CPP benefit/contribution advantage for women over men is largely due to women living longer, on average, than men. As a result, women collect retirement benefits for longer periods than men and are more likely to collect surviving spouse benefits.

In other words, women collect the bulk of their CPP advantage at the end of their lives as widows. But, even with this CPP advantage, 48.5% of women aged 65 and over and living alone in 1999 had incomes below Statistics Canada's before-tax low-income cut-off.<sup>16</sup> The low-income rate for single elderly women has always been higher than for most other demographic groups.

The 1997 CPP changes should be judged within the broadest possible context: women's ability to earn income in the Canadian economy. The high low-income rate for single elderly women, despite their CPP advantages, reflects the disadvantages faced by the current generation of elderly women. With lower participation in the paid work force, lower earnings and lower occupational pension and Registered Retirement Savings Plan (RRSP) coverage than men, elderly women end up with lower retirement incomes in their

own right from occupational pensions and retirement savings. CPP survivor benefits are a vital income supplement for elderly widows with limited incomes from other sources.

Some of these gender gaps have been closing and may well continue to close. But, according to the actuarial assumptions in the long-term CPP forecast, a gender gap in annual earnings will remain throughout this century. Given this broader context of economic disadvantages for women, was it fair to devise CPP changes disadvantaging women relative to men on both the contribution and benefit ends of the plan? The answer must be that governments failed to meet their commitment that CPP changes would be “fair between men and women.”

## 6. POLICY IMPLICATIONS FOR FUTURE CPP REVIEWS

### Prospects for Change

Governments admitted in the 1997 *Gender Implications* report that both contribution and benefit changes would work against women relative to men. The adverse effects for women were raised during public debate after the February 1997 announcement of CPP changes. However, the response in the *Gender Implications* study carried the day. Governments argued that the changes were necessary to preserve the CPP, which would still benefit women overall even if their advantage relative to men would be reduced a bit.<sup>17</sup>

Under the terms of the CPP act, an updated actuarial projection must now be published every three years. A new actuarial report was released in December 2001. The federal and provincial governments will discuss the CPP outlook during 2002. Any amendments to the CPP act would be passed in 2003 to take effect on January 1, 2004.

However, the upcoming federal–provincial CPP review may be a low-key affair, similar to the last review that concluded in December 1999. At that time, federal and provincial ministers of finance did nothing more than issue a press release assuring Canadians that all is well with the CPP after the 1997 changes.

The latest CPP review may be on course for a similar conclusion. When the latest actuarial report was released in December 2001, Finance Canada entitled its press release “Canada Pension Plan Financially Sound: Chief Actuary.” Finance Minister Paul Martin was quoted as follows: “This report confirms that the joint federal-provincial actions taken in 1998 to ensure the long-term viability of the CPP have paid off.”

In this environment, the question is: Can a CPP agenda aimed at gender fairness be advanced with any realistic expectation of success? In fact, there is some potential to pursue a fairness-oriented CPP agenda. Immediate policy changes may not be possible, but activity during this CPP round may pay off in future reviews. Organizations interested in gender fairness should pursue a two-track strategy: a short-run process track and a long-run policy track.

### Improving the CPP Review Process

The first track should be focussed on enhancing the place of gender fairness in the federal–provincial CPP review process. In October 1996, federal and provincial ministers of finance affirmed that “solutions to the CPP’s problems must be fair...between men and women” (FPTGC 1996). But, as shown in both this paper and the 1997 *Gender Implications* report, women were hit harder than men by both contribution and benefit changes. As it turned out, governments were defining fairness to mean only that changes would still leave women enjoying a CPP benefit/contribution advantage over men, albeit a reduced advantage.

The 1996-97 CPP process was flawed. The *Gender Implications* report was released after governments agreed on specific changes. With a federal–provincial agreement already in



place, organizations interested in gender fairness had little chance to persuade governments to reconsider any aspect of the CPP package.

In 1995, the federal government announced “a commitment to government-wide implementation of gender-based analysis in the development of policies, programs and legislation” (SWC 2001: 1). In the case of CPP changes, the federal government met this commitment by participating in preparing the 1997 *Gender Implications* report. However, a report much earlier in the CPP process might have had a greater impact. A report should have been released after refinancing options were set out in the *Information Paper for Consultations on the Canada Pension Plan* (FPTGC 1996). Organizations and individuals with an interest in gender fairness would have been equipped with better information to debate the options during the public consultations that began in April of that year. In fact, women’s organizations did criticize the absence of a gender analysis of the *Information Paper* options. The Federal/Provincial/Territorial Canada Pension Plan Consultations Secretariat (FPTCS 1996) recorded these comments in the June 1996 *Report on the Canada Pension Plan Consultations*.

Thus, there is room to improve on the 1996-97 process. In future federal–provincial CPP reviews, options for CPP amendments should be accompanied by a gender implications report to be released before public consultations.

If governments do nothing else after the upcoming CPP review, they could still take one important step toward meeting their gender fairness commitment. Federal and provincial governments should issue a statement acknowledging the importance of releasing a gender implications study before public consultations in the event that CPP changes are considered in this or subsequent reviews. An even better approach would be for governments to agree to amend the CPP act to make future benefit or contribution changes conditional on public consultations having been held and a gender implications report having been published before consultations.

### **Improving CPP Policy**

Under the new CPP rules, the Chief Actuary estimates, in each report, the contribution rate that will maintain a “generally constant” fund/expenditure ratio over the next 60 years. For example, in the *16th Actuarial Report of the Canada Pension Plan* (OCA 1997) the Chief Actuary at that time estimated that, if the 1997 changes were implemented, a 9.9% rate from 2003 on would be required to maintain a “generally constant” fund/expenditure ratio. As a result, governments agreed to set the contribution rate from 2003 on at 9.9%.

In the *18th Actuarial Report of the Canada Pension Plan*, the Chief Actuary estimated that a 9.8% rate from 2003 on would be sufficient to maintain a “generally constant” fund/expenditure ratio. The projection showed that the scheduled 9.9% rate will result in the fund/expenditure ratio rising throughout most of the forecast period to 2075. However, there is no provision to enforce an automatic reduction in contributions when the Chief Actuary reports that the scheduled contribution rate will produce a “generally rising” fund/

expenditure ratio. This contrasts with the automatic provision raising the contribution rate when a “generally falling” ratio is projected.

Despite the favourable actuarial projection, the upcoming CPP review may not result in a reduction in scheduled contributions over the long run. Such a policy would likely have to be co-ordinated with the parallel QPP. The QPP actuarial projection does not show as much room to reduce QPP contributions over the long run (see Appendix A).

Nevertheless, organizations interested in gender fairness should ask the CPP Chief Actuary to report on raising the YBE as an alternative to reducing the contribution rate to 9.8%. The bias in the actuarial projection process at present is to report only on alternative contribution rates. A request to estimate the YBE increase consistent with a 9.9% rate and a “generally constant” fund/expenditure ratio would at least put the YBE option on the table.<sup>18</sup>

Governments must review the CPP every three years. Future actuarial reports may convince governments that the long-term outlooks for both the CPP and QPP have improved enough to allow for lower contributions.<sup>19</sup> If and when that day comes, organizations interested in gender fairness should mobilize to raise the YBE and undo some of the harm done to women by the 1997 CPP changes. A broad coalition in favour of raising the YBE could be built by working with groups representing youth, part-time workers, the self-employed and others with below-average earnings. Getting a YBE increase on the table now as an alternative to the 9.8% contribution rate scenario would help to prepare the ground.

## **Conclusion**

CPP policy is determined by a complex institutional structure. The triennial federal–provincial review of the CPP starts with publication of an updated actuarial projection. Under the terms of the CPP amending formula, no policy changes can occur unless a federal–provincial coalition forms including Ottawa and seven provinces representing two thirds of the population.

Gender-based analysis has not had a prominent place in past federal–provincial CPP reviews. Governments acknowledged gender fairness as a goal during the talks leading up to the February 1997 CPP accord. However, release of the *Gender Implications* report (FPTGC 1997) after governments had already agreed on CPP changes suggests gender-based analysis was an afterthought.

Entrenching a commitment to public release of a gender implications report before future CPP options are debated would improve the institutional structure governing CPP policy. Organizations interested in gender fairness should also take a more active role in the actuarial review. Given the importance of the YBE to women and other groups with relatively low annual earnings, the Chief Actuary should be asked to report on the possibility of raising the YBE whenever the long-run projection shows there may be room for lower contributions.

## **APPENDIX A: QUEBEC PENSION PLAN**

### **CPP/QPP Parallelism**

The CPP covers Canadians everywhere except Quebec. The QPP covers residents of Quebec. Since their simultaneous inceptions on January 1, 1966, the CPP and QPP have maintained broadly parallel benefit and contribution structures.

Broad parallelism between the CPP and QPP structures facilitates pension portability for workers moving back and forth between Quebec and the rest of Canada. Since 1966, a portability agreement between the CPP and the QPP has ensured that workers moving out of Quebec have had their QPP credits transferred automatically to the CPP and that workers moving to Quebec have had their CPP credits transferred automatically to the QPP. The portability agreement works even though the two plans do not have identical structures. Portability is facilitated by the fact that the contribution and retirement benefit structures are almost identical. Retirement benefits account for about two thirds of total benefit spending of both the CPP and QPP.

The principal differences between the CPP and the QPP have been in children's benefits (children of members who are deceased or have a disability) and in surviving spouses' benefits. Children's benefits are higher in the CPP, while benefits for surviving spouses under age 65 are higher in the QPP. Under the CPP rules in place from 1987 to 1997, survivor benefits for those aged 65 and over were more generous than QPP benefits. The new CPP rules bring 65+ survivor benefits back in line — although still not quite identical — with QPP benefits.

I have attached to the end of this appendix a public information table HRDC makes available on its Web site at <http://www.hrdc-drhc.gov.ca>. As is clear in the HRDC table, most features of the CPP and QPP are identical.

### **QPP Changes vs. CPP Changes**

Many, but not all, of the CPP changes, which came into effect on January 1, 1998, were implemented on the same day in the QPP.

The benefit changes were not quite as extensive in the QPP as in the CPP. QPP payment rules have not changed for surviving spouses. Nor have the eligibility rules for QPP disability benefits changed. Benefits for QPP disability recipients when they reach retirement age have been reduced, but with a different formula than implemented in the CPP on the same date.

On the contribution side, the QPP and the CPP adopted the same schedule raising the rate to 9.9% from 2003 onward, and, the YBE was frozen at the 1997 level of \$3,500 in both plans.

However, one change was made to QPP contribution rules, but not to CPP rules. Before January 1, 1998, CPP and QPP members stopped contributing when they started receiving retirement benefits or reached age 70.

The QPP contribution rules were amended effective January 1, 1998 so retirement beneficiaries and those over age 70 who have not applied for retirement benefits must continue contributing if their annual earnings exceed the YBE of \$3,500. In this circumstance, QPP retirement pensions are adjusted up if the additional contributions feed through the benefit formula to raise the benefit.

Rather than insert explanations of these CPP/QPP differences and their implications throughout the main body of the paper, QPP issues are covered in one place in this appendix. In the remainder of this appendix, analysis of the gender implications of the QPP changes is presented in the same order as analysis of the CPP changes in the main body of the paper.

### **QPP Lifetime Benefit/Contribution Ratios by Gender**

Estimates of lifetime QPP benefits and contributions are not available. The Government of Quebec did not release a QPP version of the 1997 federal/provincial/territorial report, *Gender Implications of Changes to the Canada Pension Plan* (FPTGC 1997). However, a QPP version of the CPP results presented in Table 1 in the main text of this paper would likely show that Quebec women enjoy a similar advantage over men when lifetime benefits are compared to contributions.

The principal elements of the CPP and QPP structures have always been identical. The single most important factor behind the higher CPP benefit/contribution ratio for women — longevity — also applies in Quebec. In fact, according to the latest Statistics Canada life expectancy estimates, the female longevity advantage over males is a bit higher in Quebec than in the rest of Canada.

**Table A1: Life Expectancy at Birth, 1998**

	<b>Quebec Years</b>	<b>Canada (including Quebec) Years</b>
Women	81.3	81.5
Men	75.3	76.1
Extra Years for Women	6.0	5.4

Source: Statistics Canada (2000).

It is not clear whether the 1997 QPP changes reduced the lifetime benefit/contribution advantage women enjoy over men. As explained in more detail in this appendix, long-run QPP contribution savings are projected to be greater for men than women. The 1997 CPP and QPP contribution changes are projected to have similar gender impacts over the long run. However, long-run QPP benefit reductions are also projected to be greater for men than women. In contrast, CPP benefit cuts are projected to be greater for women than men. With men saving more than women on the contribution end, but losing more than women on the benefit end, it is not clear whether a QPP version of CPP Table 1 from the main text would show the 1997 QPP changes reducing women's benefit/contribution advantage over men. If the 1997 QPP changes did result in any overall shift against women, the shift would be much less significant than the CPP shift shown in Table 1.

## Impact of 1997 Changes on QPP Contributions by Gender

The QPP provided estimates of annual contributions by men and women under the new rules and under the pre-1997 rules. The gender impact of 1997 contribution changes is shown in Table A2, the QPP analogue of Table 2 showing CPP results in the main body of the text.

**Table A2: Impact of 1997 Changes on QPP Contributions by Gender**

Calendar Year	Change in Total Contributions		
	Women %	Men %	All %
1998	0.9	1.6	1.4
2001	15.3	15.8	15.6
2003	26.2	26.3	26.3
2005	19.6	19.5	19.6
2010	6.5	5.9	6.2
2013	0.5	-0.4	0.0
2014	-1.4	-2.4	-2.0
2015	-3.3	-4.3	-3.9
2030	-13.0	-14.4	-13.8
2050	-10.4	-12.3	-11.5

Notes: Simulations of QPP contributions under the new QPP rules and pre-1997 rules were based on the actuarial assumptions used in the *Actuarial Report on the Quebec Pension Plan as at 31 December 1997* (RRQ 1999). *Analyse actuarielle du régime de rentes du Québec au 31 décembre 2000* (RRQ 2001) was not available when the simulations for this paper were carried out. Contributions under the pre-1997 rules were based on scheduled contribution rates to 2050 as projected in the *Actuarial Report on the QPP as at 31 December 1994* (RRQ 1995). In this table, results for 2013 and 2014 are reported as the first years when men and women are projected to reap annual QPP contribution savings from the 1997 changes. These “break-even” years do not arrive until 2017 and 2018 in the CPP simulations reported in Table 2 in the main body of the text. QPP simulations do not extend beyond 2050. The CPP simulations reported in Table 2 extend to 2100.

Source: Author’s calculations from QPP simulation results provided by Service de l’évaluation de la Régie des rentes du Québec. I am responsible for any errors presenting or interpreting the QPP simulation data in this appendix.

## Gender Impact of 1997 Contribution Changes: QPP vs. CPP

A comparison of the Table A2 QPP results and Table 2 CPP results shows the following.

- The short-term gender impact of the contribution changes differs in the two plans. In the CPP, women are projected to bear larger contribution increases than men throughout the transitional period to 2017 needed to refinance the plan. In the QPP, men are projected to bear larger contribution increases than women through 2004. From 2005 to 2013, women are projected to bear larger increases than men. From 2014 on, both women and men are projected to pay less to the QPP than would have been required if the 1997 changes had not been made.

- The gender impact of the contribution changes is similar in both the QPP and CPP over the long run. Contribution savings are projected to be greater for men than women.
- The magnitude of the projected contribution changes is much less in the QPP than in the CPP. For example, total CPP contributions in 2001 are projected to be almost 28% higher than would have been the case without the 1997 changes. Total QPP contributions in 2001 are projected to be less than 16% higher. In 2030, total CPP contributions are projected to be almost 18% lower than would have been the case without the 1997 changes. Total QPP contributions in 2030 are projected to be less than 14% lower.

At first glance, the short-term difference between the gender impacts of the CPP and QPP contribution changes is surprising. In both plans, the contribution rate rises faster than previously scheduled to reach a permanent rate of 9.9% from 2003 onward. Contribution rate changes affect all contributors equally in percentage terms.

In both plans, the YBE has been frozen at the 1997 level of \$3,500. The YBE freeze hits hardest at those with low earnings. The regressive impact of de-indexing the YBE<sup>20</sup> disadvantages women in both Quebec and the rest of Canada. The gender earnings gap is about the same size in Quebec as in the nine CPP provinces and three territories.

**Table A3: Gender Earnings Gap, Quebec and Rest of Canada, 1998**

	Annual Earnings	
	QPP Contributors	CPP Contributors
Women	\$23,563	\$25,467
Men	\$34,890	\$36,775
Female/Male Earnings Ratio	68%	69%

Sources: RRQ (2001b); HRDC (2001a).

However, the change to contribution rules for retirement beneficiaries with annual earnings above the YBE took effect in the QPP on January 1, 1998, but not in the CPP. This is the one rule change to affect QPP contributions alone.

From 1998 to 2004, QPP contribution increases resulting from the 1997 announcements will be larger for men than for women. The QPP rate increases affect men and women equally in percentage terms. The YBE freeze hits the average woman contributing to the QPP harder than the average male contributor. Therefore, it must be the case that men are projected to account for a large share of additional QPP contributions by retirement beneficiaries with earnings above the YBE.

The impact of the YBE freeze on total contributions rises with each passing year. The impact of requiring contributions by retirement beneficiaries who earn more than the YBE matures and levels off after several years. As a result, women are disadvantaged relative to men from 2005 on by the QPP contribution changes.

The magnitude of the QPP contribution increases for both men and women are smaller in Table A2 than the CPP increases shown in Table 2. The hypothetical contribution rates, which might have applied after 1997 if no changes had been announced that year, were not the same for the two plans. As shown in Table A4, the hypothetical rates set out in the *Actuarial Report of the Quebec Pension Plan as at 31 December 1994* (RRQ 1995) rose much faster from 1998 to 2016 than the scheduled rates set out in the pre-1997 CPP act. The QPP rate was scheduled to peak at 13% in 2023 and to remain at that level thereafter. In contrast, the CPP actuaries assumed the CPP rate after 2016 would have matched the “pay-go” rate required to finance expenditures each year.

**Table A4: Pre-1997 Contribution Rate Schedules vs. Current Schedule**

Calendar Year	Pre-1997 Schedules:		Current CPP/QPP Schedule %
	CPP %	QPP %	
1998	6.1	6.4	6.4
2001	6.85	7.6	8.6
2003	7.35	8.1	9.9
2005	7.85	8.6	9.9
2010	8.9	9.85	9.9
2015	9.9	11.1	9.9
2030	13.54	13.0	9.9
2050	13.95	13.0	9.9

Source: CPP simulations provided by the OCA. QPP simulations provided by Service de l'évaluation de la Régie des rentes du Québec.

Because the QPP rates were already scheduled to rise faster than CPP rates, the short-run impact of the joint CPP/QPP rate increases announced in 1997 was greater for CPP contributors than for QPP contributors. But, in the long run, the CPP rate was projected to rise above the QPP rate projected to peak at 13%. As a result, the plan to cap the rate at 9.9% from 2003 onward results in larger long-run reductions for CPP contributors.

### **Impact of QPP Employer Contribution Increases on Jobs**

The short-term impact of QPP contribution increases on the Quebec job market will be similar to the impact of CPP contribution increases in the rest of Canada. Professor Dungan's (1998) estimate cited in the main body of the paper that CPP contribution increases will reduce national employment growth by 125,000 to 139,000 jobs in 2001 rising to 193,000 to 250,000 jobs in 2003 includes the effect of QPP contribution increases on Quebec jobs.

CPP and QPP employer contribution increases are greatest for workers with below-average earnings. As in the nine CPP provinces, Quebec workers with below-average earnings will suffer a disproportionate share of the job growth reductions caused by employer contribution increases. The same groups have below-average earnings in Quebec as in the rest of Canada: women, youths aged 18 to 24 and part-time and part-year workers.

Tables A5, A6 and A7 show estimates for QPP contributors by age group. These tables correspond with tables 5, 6 and 7 in the main body of the text for CPP contributors by age.

**Table A5: Impact of 1997 Changes on QPP Contributions by Gender and Age Group**

	2001 %	2003 %	2014 %	2030 %
Female QPP Contributors				
Aged 18-24	17.4	31.1	9.3	4.1
Aged 25+	15.2	26.0	-1.9	-13.8
All ages	15.3	26.2	-1.4	-13.0
Male QPP Contributors				
Aged 18-24	16.6	29.3	6.1	-0.1
Aged 25+	15.7	26.1	-2.8	-15.1
All ages	15.8	26.3	-2.4	-14.4
All QPP Contributors				
Aged 18-24	16.9	30.0	7.4	1.8
Aged 25+	15.5	26.1	-2.4	-14.6
All ages	15.6	26.3	-2.0	-13.8

Source: Author's calculations from QPP simulation results provided by Service de l'évaluation de la Régie des rentes du Québec. 2014 results shown because this is the first year when total QPP contributions for all workers are projected to be lower than would have been the case under the previous rules.

**Table A6: Average Earnings by Age and Gender, QPP, 1998**

	QPP Contributors Age Groups		
	Youths 18-24	Adults 25+	All
	\$	\$	\$
Women	11,114	25,541	23,563
Men	13,465	38,091	34,890
Both	12,389	32,558	29,872

Source: RRQ (2001b) and author's calculations for earnings of adults aged 25 and up.

**Table A7: Annual Average Earning Ratios, QPP and CPP, 1998**

	Gender Ratios (Women/Men)		
	Youths 18-24	Adults 25+	All
	%	%	%
QPP Contributors	83	66	68
CPP Contributors	77	68	69
	Age Ratios (Youth/Adult)		
	Women	Men	Both
	%	%	%
QPP Contributors	44	35	38
CPP Contributors	42	37	39

Source: Author's calculations from tables A5 and 6.



Data on part-time and/or part-year workers in Quebec are not publicly available. The national data shown in Table 8 include Quebec workers. Gender and age-related earnings gaps are similar for QPP and CPP contributors. The gap between full-time, full-year earnings, and part-time and/or part-year earnings is likely similar in Quebec and in the nine CPP provinces. If so, YBE de-indexing will have the same effect in Quebec as in the rest of Canada. Part-time and part-year workers, who generally earn less each year than full-time, full-year workers, will face higher QPP contribution increases.

One group of Quebec workers will be particularly affected by the one QPP contribution change not implemented in the CPP. Recipients of QPP retirement pensions who earn more than the YBE of \$3,500 are now making QPP contributions. Their employers also have to make QPP contributions on their behalf. Before January 1, 1998, retirement beneficiaries were exempt from both employee and employer QPP contributions. The previous exemption from employer QPP contributions provided recipients of retirement pensions with one advantage on the job market. Recipients of QPP retirement pensions may now be less employable than they were under the previous rules.

All recipients of retirement pensions are aged 60 and over. Both male and female retirement beneficiaries who earn more than the YBE will have lost the QPP contribution exemption, which previously provided them with one advantage on the job market. However, the QPP simulation results indicate that more male than female retirement beneficiaries are projected to earn more than the YBE of \$3,500 and pay QPP contributions. The new rules requiring employer QPP contributions can be expected to discourage some employers from making job offers to retirement beneficiaries. If most retirement beneficiaries interested in working are men, most of those unable to do so because of any adverse effects of QPP employer contributions will also be men.

### **Impact of Contribution Increases on the Self-Employed**

As in the rest of Canada, the regressive contribution increases will be high for self-employed Quebeckers, another group with below-average earnings. In both Quebec and the rest of Canada, self-employment earnings are particularly low and contribution increases necessarily higher for women and youths aged 18 to 24, as shown in Table A8.

**Table A8: Estimated QPP Contribution Increases, Self-Employed vs. Wage/Salary Workers**

	Average Earnings, 1998 \$	Change in QPP Contributions Due to 1997 Accord		
		1998 %	2001 %	2003 %
Women aged 18 to 24				
Self-employed	10,562	1.3	17.8	30.1
Wage or salary worker	11,119	1.2	17.5	29.5
Men aged 18 to 24				
Self-employed	12,253	1.1	16.9	28.6
Wage or salary worker	13,478	0.9	16.4	27.8
Women aged 25 and up				
Self-employed	20,555	0.6	15.1	25.5
Wage or salary worker	25,838	0.4	14.6	24.7
Men aged 25 and up				
Self-employed	33,172	0.3	14.3	24.1
Wage or salary worker	38,507	0.3	14.1	23.9

Notes: Average earnings of Quebec workers projected forward to 2001 using same national earnings growth figures used to project average earnings of workers in the rest of Canada in Table 10. Average earnings projected forward to 2003 assuming 3% earnings growth for 2002 and 2003, as in Table 10.

Sources: RRQ (2001b) and author's calculations. See note to Table 10.

### QPP Benefit Reductions

In Table A9, the impact of the 1997 changes on QPP benefits for women and men are shown from 1998 to 2050.

There are two important differences between the QPP gender impact results in Table A9 and the analogous CPP gender impact results in Table 11. First, men are projected to lose more QPP benefits over the long run than women as a result of the 1997 changes. In contrast, women are projected to lose more CPP benefits than men. Second, the QPP projection shown in Table A9 shows that the 1997 changes will generate a slight increase through 2003 in the combined total of retirement, disability and survivor benefits paid to both women and men. On the CPP side, benefits for both women and men are projected to have been reduced as soon as the changes were implemented in 1998.

To illuminate the long-run gender impact of the 1997 QPP benefit changes, Table A10 represents the QPP version of Table 12 on CPP benefits.

In the CPP case, large benefit cuts for surviving spouses who lose their partners after 1997 account for most of the gender gap in CPP benefit reductions disadvantaging women. CPP survivor benefits in 2030 are projected to be nearly 16% lower than would have been the case under the pre-1997 rules. Survivor benefit cuts work against women, who constitute the overwhelming majority of surviving spouses.

**Table A9: Impact of 1997 Changes on QPP Benefits by Gender**

Calendar Year	Change in Total Benefits Paid to		
	Women %	Men %	All QPP Spending %
1998	0.004	0.01	-0.1
2001	0.03	0.06	-0.1
2005	-0.1	-0.2	-0.5
2010	-0.6	-1.1	-1.4
2015	-1.2	-2.2	-2.4
2030	-3.2	-4.9	-5.2
2050	-3.8	-5.2	-6.1

Notes: Benefits to men and women include retirement, disability and surviving spouse benefits. All QPP spending also includes repayments to social assistance, benefits for children of contributors, who are deceased or have a disability, as well as death benefits payable to estates when QPP members die. The death benefit was cut for most deceased contributors as part of the package of QPP changes implemented on January 1, 1998. The maximum death benefit was frozen at \$2,500 from 1998 onward. Death benefits accounted for less than 2% of total QPP spending in 1997 before the freeze. But, the death benefit cut is so large that total QPP spending, including death benefits, is projected to fall by more than retirement, disability and surviving spouse benefits payable to women and men.

Source: Author's calculations from QPP simulation results provided by Service de l'évaluation de la Régie des rentes du Québec.

**Table A10: Breakdown of 2030 QPP Losses by Gender and Type of Benefit**

Type of QPP Benefit	Women			Men		
	% Share of Total Benefits under Pre-1997 Rules (a)	% Loss Due to New Rules (b)	(a*b)	% Share of Total Benefits under Pre-1997 Rules (a)	% Loss due to New Rules (b)	(a*b)
Retirement	74.25%	-4.07%	-3.02	90.13%	-5.80%	-5.23
Disability	4.14	+4.44	+0.18	6.63	+4.92	+0.33
Survivor	21.61	-1.76	-0.38	3.24	-0.94	-0.03
Total % Loss (sum of a*b)			-3.22%	% Loss (sum of a*b)		-4.93%

Source: Author's calculations from QPP simulation results provided by Service de l'évaluation de la Régie des rentes du Québec.

In the QPP case, the small survivor benefit reductions shown in the table are an indirect outcome of a change in both the CPP and QPP to the retirement benefit formula. Survivor and disability benefits are calculated as a percentage of the deceased spouse's retirement benefit. After 1997, retirement benefits will be based on the five-year average of YMPEs prior to the event that triggered a benefit, instead of the previous three-year average. Retirement benefits taking effect after 1997 were reduced as a result, and so were survivor and disability benefits.

Some QPP disability recipients will receive lower benefit payments as an indirect result of the change to the retirement benefit formula. However, this effect on total disability payments will be more than offset by an influx of newly eligible disability recipients.

The YBE freeze at the 1997 level of \$3,500 will have the indirect effect of allowing more people to be eligible for disability recipients. The QPP eligibility threshold for disability benefits was not affected by the 1997 reform package. The threshold continues to be a record of QPP contributions in two of the last three years, five of the last ten years or at least half of the period since the contributor turned 18. In the CPP, the eligibility threshold was raised to contributions in four of the six years prior to applying for a disability benefit. With the YBE frozen at \$3,500, people with annual earnings between \$3,500 and the level the YBE would have reached under the old formula will be CPP/QPP contributors and earn eligibility for disability benefits.

In the CPP case, total disability benefits are projected to be more than 15% lower in 2030 than would have been the case under the pre-1997 rules. The negative impact of the tighter eligibility threshold will more than offset the positive impact the YBE freeze will have on bringing in more contributors and potential disability recipients. In the QPP case, the eligibility threshold has not changed and the YBE effect will generate a net increase in disability payments.

In the QPP case, the 1997 changes are projected to reduce benefits more for men than women, largely because retirement benefits are projected to fall more for men than women. The change to a five-year YMPE average in the retirement benefit calculation from a three-year average will reduce all retirement benefits, which start after 1997. However, this reduction will have an equal impact on all those who retire in a given year. The larger QPP retirement benefit loss for men is due to the change in the calculation of retirement benefits for former disability beneficiaries.

In the QPP case, when disability beneficiaries turn 65, they will receive a retirement benefit calculated as if they had taken an early retirement benefit when they started disability benefits. Disability beneficiaries who started receiving benefits before the early retirement threshold of age 60 will receive a retirement benefit at age 65 calculated as if they had started their retirement benefit at age 60. Up to 1997, CPP/QPP disability beneficiaries received an unreduced retirement benefit at age 65 based on their earnings record up to the date of disability.

The QPP change has a greater effect on retirement benefits for men because the overall incidence of disability is greater for men than women. In the CPP, a different method was adopted for reducing retirement benefits payable when disability beneficiaries turn 65. Under the CPP approach, retirement pensions are based on the YMPE at the time that disability benefits began. An indexing formula adjusts the YMPE calculation for price inflation between the age disability benefits began and age 65. The formula makes no allowance for real wage growth. The CPP approach has a larger impact on retirement pensions payable to female disability beneficiaries, more of whom become disabled at younger ages than male disability beneficiaries.

## QPP Review Process

The CPP act contains a provision requiring a formal federal–provincial review by January 1, 2004 and every three years thereafter. Under the terms of the QPP act, an actuarial evaluation must be released every three years, and public consultations must be held every six years. In the upcoming round to be completed by January 1, 2004, QPP consultations will coincide with the CPP review.

All governments have an interest in maintaining CPP/QPP parallelism, particularly for contributions. In practice, CPP and QPP actuarial reports are considered together. A realistic window to reduce contributions by raising the YBE will only open when both CPP and QPP actuarial projections indicate there is room to reduce contributions.

Organizations interested in promoting a YBE increase on gender fairness grounds will have to convince the Government of Quebec. Quebec controls QPP policy and also votes on CPP amendments along with the other provinces. Quebec’s CPP vote is in recognition of its interest in maintaining broad CPP/QPP parallelism and portability. Quebec’s CPP vote is significant because its population amounts to 24% of the 10-province total. CPP amendments require approval by the federal government and at least seven provinces with a combined population amounting to at least two thirds of the 10-province total. Quebec and British Columbia (13% of the population) or Quebec and Alberta (10%) together have enough population to block a CPP amendment. Even if the federal government and all other provinces agreed to raise the YBE in the CPP, they might hesitate to go ahead if Quebec was concerned the QPP’s actuarial outlook did not allow for a long-run contribution reduction.

A comparison of the latest CPP and QPP projections with the scheduled 9.9% contribution rate indicates there is not as much room in the long-run QPP outlook for a reduction in QPP contributions.

**Table A11: Projected CPP and QPP Fund/Expenditure Ratios**

Calendar Year	CPP	QPP
2001	2.2	2.6
2005	3.2	3.2
2010	4.2	3.9
2020	5.2	4.5
2030	5.3	4.2
2040	5.4	3.7
2050	5.6	3.1

Sources: OCA (2001: Table 12); RRQ (2001a: Table 7).

Thus, the need to maintain CPP/QPP parallelism complicates the YBE policy track proposed in this paper. A realistic window of opportunity for raising the YBE may not open until both CPP and QPP actuarial reports show as much room for lower contributions over the long run.

However, the same process track can be followed for both the CPP and QPP. The Government of Quebec released a working paper, *For You and Your Children: Guaranteeing the Future of the Quebec Pension Plan* (RRQ 1996) before public consultations leading up to the 1997 QPP changes. There was no analysis of the gender implications of QPP options in this working paper. A Government of Quebec commitment to provide a gender analysis of any future QPP options would be a step forward.

### **YBE Increase vs. Survivor Benefit Increase**

The alternative to raising the YBE is improving survivor benefits. But, the prospects for improving survivor benefits are not promising for two reasons.

First, most CPP and QPP changes have been co-ordinated. The two plans have to be broadly in sync to maintain the CPP/QPP portability agreement allowing for a transfer of credits when workers move between Quebec and the rest of Canada. Portability can be maintained even if some aspects of the two plans differ. For example, from 1987 to 1997 there was a significant difference in survivor benefits. Even after the 1997 CPP changes, some small differences remain in the survivor benefit formulas. Nevertheless, both sides have an interest in maintaining CPP/QPP parallelism. Ideally, a CPP survivor benefit increase would be co-ordinated with the QPP. Co-ordinating CPP and QPP survivor benefit changes has been difficult in the past.

A second complication is that the CPP act now contains a provision requiring that a contribution increase accompany any increase in benefits. A survivor benefit increase is possible in theory. If the CPP actuarial outlook improved enough to allow for a reduction in the long-term contribution rate, governments could agree to raise survivor benefits instead, while leaving the contribution rate unchanged. However, a survivor benefit increase would have to be formally linked to an increase in the contribution rate above the level to which the long-term rate could have fallen. In practice, this formal link between a benefit increase and the contribution rate might make it more difficult to build a federal–provincial consensus in favour of any benefit increase.

**CANADA PENSION PLAN and QUEBEC PENSION PLAN**

Type of Benefit	New Benefits Maximum Rate (2001)		Number of Benefits (April 2001)		Amounts paid (April 2001)	
	CPP	QPP	CPP	QPP	CPP	QPP
	\$	\$	#	#	\$ M	\$ M
Retirement (age 65)	775.00	775.00	2,738,092	948,493	1,173.6	341.7
Disability	935.12	935.09	279,579	54,339	211.5	41.5
Survivors						
• - 65	428.70	(**)	226,724	83,227	71.9	45.0
• 65 +	465.00	465.00	655,208	222,875	166.2	54.9
Total			881,932	306,102	238.1	99.9
Children of Disabled Contributor	178.42	56.65	93,163	6,964	20.3	0.5
Children of Deceased Contributor	178.42	56.65	89,705	20,580	17.5	1.2
Death (lump sum)	2,500.00	2,500.00	9,395	3,039	20.4	7.0
<b>TOTAL</b>			<b>4,091,866</b>	<b>1,339,517</b>	<b>1,681.4</b>	<b>491.8</b>
Combined Pensions						
• Surv./Rtr	775.00	775.00	475,217	<i>n.a.</i>	280.2	<i>n.a.</i>
• Surv./Dis.	935.12	1,227.71	12,579	<i>n.a.</i>	11.2	<i>n.a.</i>
Total			487,796	144,815	291.4	74.3

**DISABILITY AND SURVIVOR'S RATES**

	Flat Rate	Earnings Related Portion	Total
CPP Disability Benefit	\$353.87	\$581.25	<b>\$935.12</b>
CPP Survivor's Pension under 65	\$138.07	\$290.63	<b>\$428.70</b>
QPP Disability Benefit	\$353.84	\$581.25	<b>\$935.09</b>
(**) QPP Survivors - Under 45			
• Not disabled, no child	\$90.63	\$290.63	<b>\$381.26</b>
• Not disabled, with child	\$328.54	\$290.63	<b>\$619.17</b>
• Disabled	\$353.84	\$290.63	<b>\$644.47</b>
- Age 45 to 54	\$353.84	\$290.63	<b>\$644.47</b>
- Age 55 to 64	\$399.59	\$290.63	<b>\$690.22</b>

**CALCULATION OF CPP MAXIMUM MONTHLY RATES FOR NEW BENEFITS**

Retirement:	25% of 1/12 of the average YMPE for last five years
Disability:	(Retirement x 0.75) + flat rate (\$353.87)
Survivors:	• under 65: (Retirement x 0.375) + flat rate (\$138.07)
	• 65 or over: (Retirement x 0.60)

**OLD AGE SECURITY**

Type of Benefit	(July to September 2001)		(April 2001)	
	Maximum Rate	Income Level Cut-off	Number of Benefits	Amount Paid
	\$	\$	#	\$ M
Old Age Security Pension	436.55	n.a.	<b>3,834,982</b>	<b>1,600.9</b>
Guaranteed Income Supplement				
• Single	518.82	12,456	849,619	309.2
Spouse/Common-law partner of				
• a Non-Pensioner	518.82	30,192	78,682	26.5
• a Pensioner	337.94	16,224	383,413	78.8
• an Allowance Recipient	337.94	30,192*	63,215	16.4
Total			<b>1,374,929</b>	<b>430.9</b>
The Allowance				
• Regular	774.49	23,232	63,195	17.6
• Survivor	855.05	17,064	32,336	15.7
Total			<b>95,531</b>	<b>33.3</b>

\* The Allowance stops being paid at \$23,232 while the GIS stops being paid at \$30,192  
OAS pension repayment level in 2001 from \$55,309 to \$90,070

**SELECTED FIGURES (2001)**

	CPP	QPP
Year's Maximum Pensionable Earnings (YMPE)	\$ 38,300.00	\$ 38,300.00
Year's Basic Exemption	\$ 3,500.00	\$ 3,500.00
Employee/Employer Maximum Contribution (4.3%)	\$ 1,496.40	\$ 1,496.40
Self-Employed Maximum Contribution (8.6%)	\$ 2,992.80	\$ 2,992.80
Account Balance (March 2001)	\$ 43,568 M	\$ 17,355 M
Contributions (1999-2000) (est.)	\$ 16,872 M	\$ 4,952 M
Number of Contributors 1998	10.4 M	3.2 M
Indexation Rate (January 2001)	2.5 %	2.5 %

**MAIN ESTIMATES 2001 - 2002**

(Expenditures millions \$)

OAS	GIS	ALLOWANCE	TOTAL	CPP	QPP
19,533	5,236	412	<b>25,181</b>	<b>20,045</b>	<b>6,422</b>

Source: Income Security Programs

Human Resources Development Canada

Effective July 2001



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## ENDNOTES

<sup>1</sup> It is not entirely clear what would happen if the CPP ran short of funds. Benefit levels are prescribed in the CPP act. One option for handling the 2015 shortfall scenario might have been a loan from the federal and/or provincial governments to the CPP.

<sup>2</sup> Under the CPP amending formula, changes can only be made if the federal government approves, along with at least seven provinces representing at least two thirds of the combined population of the 10 provinces. Compromise solutions stand a better chance of meeting the CPP amending formula requirement. Analysts on both ends of the ideological spectrum criticized the 1997 agreement. Some observers on the left preferred maintaining benefits with a slight acceleration in the scheduled contribution rate increases. Some on the right favoured the Chilean model of winding up the CPP and replacing it with mandatory RRSP accounts. However, neither side was able to build the federal–provincial coalition needed to pass their preferred CPP package.

<sup>3</sup> The CPP changes also included a move to adopt the long-standing investment policy of the QPP. The CPP reserve fund is now being invested in stocks as well as bonds. Until 1998, the CPP fund was invested only in government bonds and short-term deposits. This change is not covered in this paper, because it has no direct implications for how men and women are treated by the CPP.

<sup>4</sup> The authors chose the 1979 birth cohort to illustrate the lifetime impact of the 1997 CPP changes because this group would experience the full range of contribution changes. Members of the 1979 cohort reached 18, the starting age for compulsory CPP contributions, in 1997. Thus, this group would experience the CPP contribution increases over the first 20 years of the refinancing plan. The long-run contribution savings would then kick in over the last portion of the 1979 cohort's working lives. And, the entire 1979 cohort would be subject to the benefit cuts that took effect on January 1, 1998.

<sup>5</sup> 2030 was selected as the year to illustrate the long-run effects of the changes because the baby boom generation born from 1946 to 1966 would have nearly its full effect on CPP expenditures by that year. Almost all members of that generation will have retired by 2030.

<sup>6</sup> To place this result in Table 3, earnings of \$22,843 in 2030 would be equivalent to \$12,863 in 2001 dollars if annual inflation averages 2%. If the YBE remains frozen at \$3,500, its real value will have fallen to the equivalent to \$1,971 in 2001 dollars by 2030.

<sup>7</sup> To calculate tables 3, 4, 9 and 10, I assume that annual inflation will average 2% over the long run. Two percent is the mid-point of the 1% to 3% inflation target range that the federal Minister of Finance and Bank of Canada recently extended to 2006. This differs from the 3% inflation assumption selected by the acting CPP Chief Actuary in the 1999 *17th CPP Actuarial Report* (OCA 1998). The 3% inflation assumption lies behind the gender impacts in tables 2, 5 and 11. Thus, there is a small inconsistency between the calculations in tables 3, 4, 9 and 10 on the one hand and tables 2, 5 and 11 on the other. However, the difference between 2% and 3% annual inflation is not large enough to alter the conclusions that women

will be hit harder by the 1997 changes on both the contribution and benefit ends and that the problem for women on the contribution end is YBE de-indexing.

<sup>8</sup> There is one offsetting benefit for workers with very low earnings just above the \$3,500 YBE. They will pay contributions on a very small amount of earnings above the YBE and yet get credit in the CPP benefit calculation for the full amount of earnings. For example, the YBE in 2001 would have been \$3,800 if the pre-1997 indexing formula had remained in place. Someone who earns \$3,799 in 2001 will make contributions on \$299 of insurable earnings, but get credit for \$3,799 of earnings. In other words, de-indexing the YBE allows more people to benefit from the tilt in the CPP benefit formula in favour of low-income earners. However, to take full advantage of YBE de-indexing, a CPP member's earnings would have to remain for many years between \$3,500 and what the YBE would have been under the previous indexing rule. Most people whose annual earnings fall into this range likely remain in this range for a few years at most (e.g., while working part year and going to school). The lowest seven years in an individual's earnings record are dropped from the CPP benefit calculation in any case. It is unlikely that many CPP members, even those with below-average lifetime earnings, will earn more in extra benefits from YBE de-indexing than they will pay in extra contributions. HRDC has a hypothetical lifetime simulation model that could be used to shed some light on how many CPP contributors might reap long-run benefits from YBE de-indexing.

<sup>9</sup> Annual earnings of female CPP contributors in 1966 averaged 50% of male annual earnings. By 1999, average annual earnings of female CPP contributors had risen to 70% of male earnings.

<sup>10</sup> Governments could have maintained YBE indexing and raised the contribution rate in seven annual steps to a permanent level from 2003 onward. As reported in the *16th CPP Actuarial Report* (OCA 1997), the rate would have had to rise to 11.3% with YBE indexing, instead of 9.9% with the YBE fixed forever at \$3,500. All workers regardless of gender, age and annual earnings would have been subject to the same percentage increase in CPP contributions in each year of the transitional period required to replenish CPP finances. And, all workers would have eventually received the same percentage contribution savings in the long run. However, it might have been hard to form a federal-provincial consensus in favour of larger CPP contribution increases from 1997 to 2003.

<sup>11</sup> See Mintz et al. (1997) page 3.13 for a summary of the literature.

<sup>12</sup> Some economists argue that employer payroll taxes are fully shifted to labour in the long run. Baran (1996) provides a comprehensive review of recent studies. See also Bédard (1998); Dahlby (1993); di Matteo and Shannon (1995); Kesselman (1995); Marchildon et al. (1995).

<sup>13</sup> Professor Dungan's (1998) estimates include the effect of QPP contribution increases implemented in parallel with CPP increases. See Appendix A for more on the QPP. CPP/QPP contribution increases have been partly offset by reductions in Employment Insurance (EI) premiums. In 2002, CPP and QPP contributions are projected to be \$7.9 billion greater than what would have been collected under the pre-1997 contribution schedules. In a November 30,

2001 press release, HRDC (2001c) estimated that reductions since 1994 will reduce EI premiums in 2002 by \$6.8 billion.

<sup>14</sup>Contributions to the CPP and other social insurance plans generate the promise of future benefits. CPP contributions would not impose a tax burden that would affect economic decisions, if individual contributions were tightly linked to future benefits, as is the case in funded occupational pension plans. However, the 1997 CPP changes resulted in faster contribution increases and reduced benefits. In the *17th CPP Actuarial Report* (OCA 1998), the acting Chief Actuary at that time estimated that CPP benefits could be financed by a 5.79% contribution rate if the plan could have been started from scratch in 1998. The gap between the 5.79% actuarially fair rate and the 2001 contribution rate of 8.6% is large enough that most workers likely perceive CPP contributions as a tax rather than individual savings. As the rate rises to 9.9% by 2003, this perception will grow stronger.

<sup>15</sup> On average, male surviving spouses have higher retirement or disability benefits of their own than female survivors and are more likely to have been affected by the pre-1997 ceilings. As a result, the move to more restrictive ceilings actually will have less effect in practice on male surviving spouses. See Sayeed (1999b) for more detail. Some of the survivor benefit analysis in this paper is drawn from that earlier paper.

<sup>16</sup> Statistics Canada (2001). The 1999 before-tax low-income rate for single elderly men was lower at 31.9%. And, for senior citizens living in couples and other family arrangements the pre-tax low-income rate was much lower still at 5.1%. I have used the before-tax low-income cut-off (LICO) rates to illustrate the point that single elderly women are poorer than most other demographic groups. Statistics Canada officials have repeatedly warned that LICOs are not poverty lines. See Fellegi (1998). Some experts believe that other indicators, such as the after-tax LICOs, the low-income measures (LIMs), the market basket measure (MBM), should replace before-tax LICO rates. However, before-tax LICO rates are still the most widely cited low-income measures. Using another low-income indicator would not undermine the general point that the low-income rate for single elderly women is well above average.

<sup>17</sup> The federal Liberal Government was re-elected in November 1997. Five of the eight provincial governments to approve the 1997 CPP changes have since been re-elected. Of the two provincial governments to oppose the 1997 package, one has been defeated and the other has been reduced from majority to minority status. There is no evidence that the CPP has been an important issue in any federal or provincial election campaign.

<sup>18</sup> In technical terms, the Chief Actuary would calculate the number of years for which YBE indexing could be restored, while still meeting the “generally constant” fund/expenditure ratio requirement with a permanent contribution rate of 9.9% from 2003 onward. See Sayeed (1999a) for an example of a CPP simulation based on a similar request. Some of the YBE analysis in this paper is drawn from that earlier paper.

<sup>19</sup> A favourable actuarial outlook would also open up the option of raising surviving spouse benefits. However, as explained in Appendix A, the prospects for forming a federal–

provincial consensus may be less promising for survivor benefit changes than contribution changes.

<sup>20</sup> To maintain the same contribution structure as the CPP, indexing of the YMPE for QPP purposes is based on the same formula used to index the YMPE for CPP purposes. In other words, YMPE indexing for QPP purposes is linked to growth in national average earnings, not Quebec average earnings. Thus, the YBE was set at the same level in both the CPP and QPP under the pre-1997 rules.

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\* Some of these papers are still in progress and not all titles are finalized.