CANADA PENSION PLAN

STATUTORY ACTUARIAL REPORT NO. 5

Department of Insurance,
Ottawa, Canada.

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INTRODUCTION

This report has been prepared in compliance with subsection 116(2) of the Canada Pension Plan which provides that, whenever any Bill is introduced in or presented to the House of Commons to amend the Act, a report shall be prepared indicating the extent to which such Bill would if enacted by Parliament affect any of the estimates contained in the most recent report made pursuant to subsection 116(1) before the introduction or presentation of such Bill.

The most recent report made pursuant to section 116 and containing detailed estimates is the Statutory Actuarial Report No. 3, as at December 31, 1973, which was tabled in the House of Commons on April 17, 1974. That report contained "Existing Plan" estimates for the Canada Pension Plan as it was prior to November 27, 1974, when Bill C-22, First Session, Thirtieth Parliament (earlier introduced as Bill C-19, Second Session, Twenty-ninth Parliament) received Royal Assent; the report also contained "Proposed Plan" estimates for the Canada Pension Plan as it is now (i.e., subsequent to that amendment). The said "Proposed Plan" estimates may be taken as the "estimates contained in the most recent report made pursuant to subsection 116(1)" for purposes of measuring the effect of the amendments now proposed in Bill C-49 (Second Session, Thirtieth Parliament), which was introduced by the Minister of National Health and Welfare on April 18, 1977.

SUMMARY OF MAJOR AMENDMENTS CONTAINED IN BILL C-49

1. Periods during which a contributor was a family allowance recipient in respect of a child under seven years of age and had pensionable earnings equal to or less than her or his average pensionable earnings are to be excluded from the contributory period and the earnings during such excluded periods are to be excluded in the calculation of the average monthly pensionable earnings. In addition, any periods during which unadjusted pensionable earnings do not exceed the basic exemption are not to be counted for purposes of qualifying for a disability pension.

2. Former spouses are to be given the option of having pensionable earnings during periods of cohabitation of at least three years revised to fifty per cent of the combined earnings of the two former spouses.

3. The "half-benefit" payable in respect of each orphan or child of a disabled contributor in excess of the fourth child in a family is to be doubled.

4. It is to be permissible for retirement pensions to be backdated for periods up to one year, but not prior to age 65 or to the month following the month for which a contribution was last made. Until now, backdating has not been permitted prior to age 70.

EFFECT OF PROPOSED AMENDMENTS

Calculations indicate that the first of the above amendments (i.e., the one affecting family allowance recipients) is likely to result in slowly and slightly increasing costs that would be reflected in required combined employee-employer contribution rates being higher by about 0.1% of contributory earnings by 2005 and 0.3% by 2025. This amendment is unlikely to have a measurable effect on the development of the fund, because by the time increased costs begin to emerge, contribution rates will have had to be revised so as to cover all benefit payments and maintain the funding objective.

The remainder of the amendments are estimated to have a negligible impact on required contribution rates as well as on the development of the fund. In elaboration, the following additional comments appear appropriate.

With regard to the splitting of contributory earnings between spouses, calculations have shown that, if all contributory earnings of spouses were divided equally, there would be a slight decrease in aggregate costs. The reason for this is that the decrease in surviving spouses' pensions payable would more than offset increases in all other benefits. The splitting of credited earnings on dissolution of marriage, of course, will affect only a fraction of all contributors, and the effect on aggregate costs should be minimal. Moreover, since divorced contributors are less likely to be married at death than contributors generally, the effect on surviving spouses' pensions is likely to be proportionately somewhat less; this would tend to further attenuate whatever minimal aggregate effect there might be.

Total benefits payable in respect of orphans and children of disabled contributors are equivalent currently to about 0.2% of contributory earnings decreasing to less than 0.1% by 2005. The proportion of such costs attributable to children beyond the fourth in any one family is a very small fraction, so that the proposed increase in these benefits is clearly negligible from the point of view of total plan operations.

The proposal to permit retroactivity of retirement pensions to applicants between ages 65 and 70 will only have a minor effect on the estimates in Statutory Actuarial Report No. 3, because the projections are based on the assumption that of all benefits that could be paid between ages 65 and 70, 90% will be payable in case of males and 95% in case of females. These percentages are unlikely to be increased significantly because a substantial part of the relatively small fraction of contributors whose pension is expected to commence later than age 65 will consist of persons who will not be able to backdate their pension because they are still contributing.

CONCLUSION

In our opinion, the enactment of Bill C-49 is expected to result in combined employee-employer contribution rates gradually increasing to be higher than projected in Statutory Actuarial Report No. 3 by 0.1% of contributory earnings in the year 2005 and by 0.3% of contributory earnings in the year 2025.

Respectfully submitted,

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