

*Fast Facts*

# New CPP Enhancements: What do they mean for Canadian workers and seniors?

## SUMMARY

In 2016, the Canadian government announced several significant enhancements to the Canada Pension Plan (CPP).

But within Canada's complex tax and social benefit system, how much of the enhanced CPP benefit will make its way into the pockets of Canadian seniors? Researcher Bonnie-Jeanne MacDonald, PhD, FSA, explores that question in this report.

MacDonald's research looks out to the year 2070, when the CPP enhancements will be fully mature, and calculates two distinct impacts: 1) the net impact on Canadian seniors' income flows, and 2) how well they help to support the working-life living standards of Canadians in retirement. The adjacent Highlights column shows a few of the findings.

"There are clearly challenges ahead," MacDonald writes, "and while the goal is retirement security for all Canadians, it will also be important to protect the financial welfare of the working-age population. Evidence suggests the CPP enhancements are a step in the right direction."

## HIGHLIGHTS

- In the first line of investigation, the study found that the proportion of the enhanced CPP benefit that will make its way into the pockets of Canadian seniors was reasonably consistent across earnings groups—but the dynamics vary greatly.
- *Low earners*: The enhanced CPP benefit for low-earners will be offset by reduced Guaranteed Income Supplement (GIS) benefits and higher taxes, which will decrease the average net income from the enhancements by 42% (from \$3,600 to \$2,100 in 2017 dollars).
- *High-earners*: These individuals will lose nearly the same proportion due to higher taxes and lost OAS (Old Age Security) benefits (a 41% reduction to the mean gross benefit of \$13,500, resulting in a net benefit of \$8,000).
- *Lower-middle income earners*: This demographic will get the most net value from the enhancements but still lose 34% (reducing the benefit from \$7,700 to \$5,100) due to lost GIS and OAS benefits as well as higher taxes.
- The second line of investigation in the research found the CPP enhancements should help Canadians maintain working-life living standards after retirement—particularly middle- and upper-earners without significant participation in employer pension plans during their working lives (40% of the Canadian population). With CPP enhancements factored in but no other changes, the proportion of this group considered unprepared for retirement drops from 46% to 34%.

## LINK TO FULL REPORT

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<https://www.soa.org/press-releases/2018/risk-process-retirement.pdf>

## METHODOLOGY

- Population: The study assesses the fully matured Canada Pension Plan (CPP) enhancements benefits by examining Canadians turning 65 in 2070-74. It carries out the analysis by building on Statistics Canada's *LifePaths* population microsimulation model.
- Two measurement lenses: 1) Mean longitudinal income flows, to average incomes flows across each senior's lifetime from age 70 until death; 2) the Living Standards Replacement Rate (LSRR) metric, to assess how much the CPP enhancements will help maintain the living standards of individual working Canadians after retirement.
- Three scenarios: Original CPP, Enhanced CPP, and Enhanced CPP with behavioral responses.

## REPORT SPECS

- Published: June 2018
- Pages: 34
- Access: Downloadable pdf
- Research Sponsors: The Society of Actuaries (SOA) and Canadian Institute of Actuaries
- Author: Bonnie-Jeanne MacDonald, PhD, FSA, Senior Research Fellow, National Institute on Ageing, Ryerson University and Resident scholar at Eckler Ltd
- Contents: Executive summary, background and scope, methodology with analysis, conclusion, acknowledgements, references, appendix, 12 tables and 2 figures
- Body of research: This study explores the impact of enhancements to the Canada Pension Plan (CPP) on retirement outcomes, using Statistics Canada's *LifePaths* dynamic microsimulation model of the Canadian population. Included are insights into Canada's universal Old Age Security (OAS) and its income-tested Guaranteed Income Supplement (GIS), and more than 50 professional citations.



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