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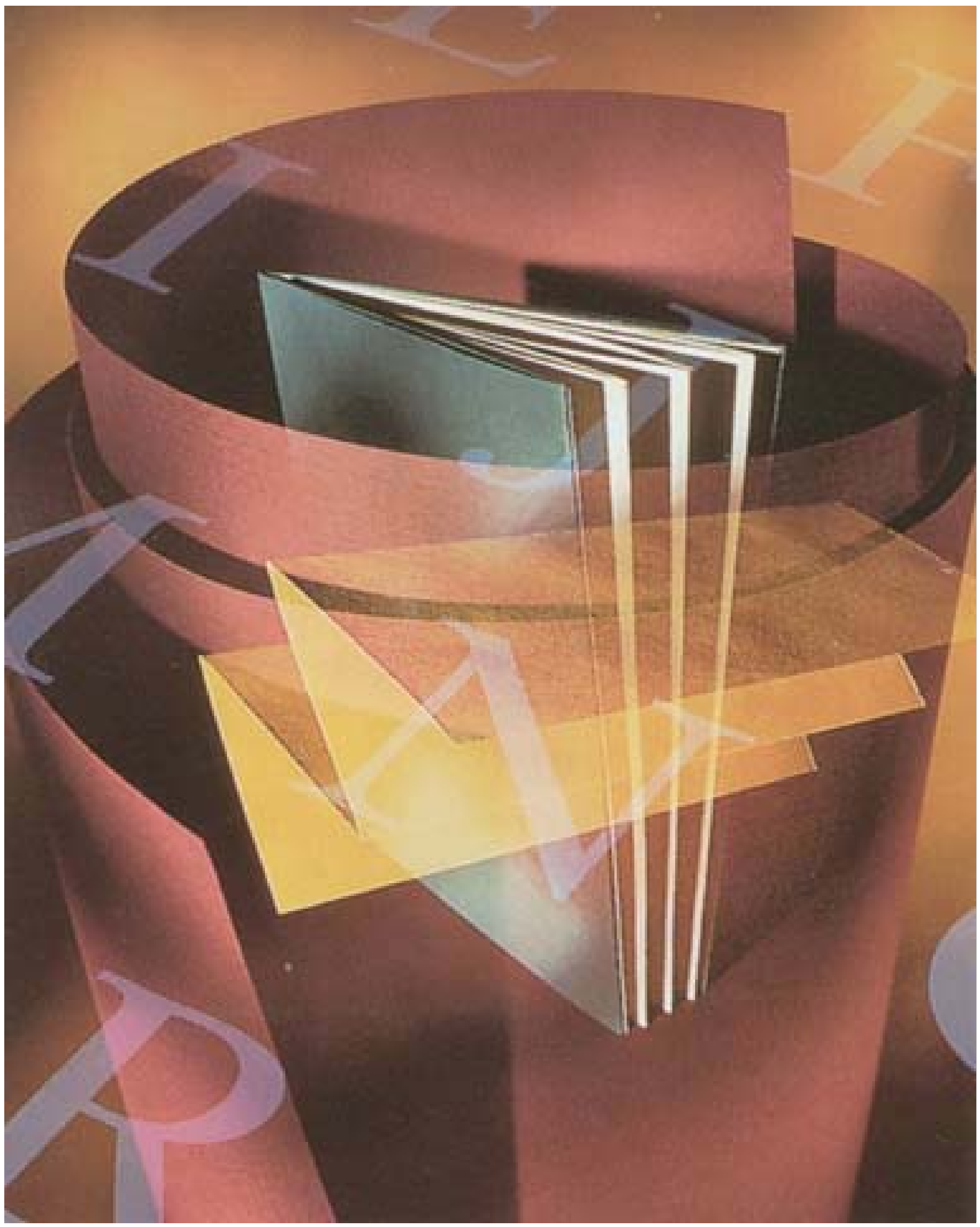
- THE LABOUR MARKET IN 2003
- RETIREMENT PLAN AWARENESS
- A C/QPP OVERVIEW



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Perspectives on Labour and Income

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Symbols

The following standard symbols are used in Statistics Canada publications:

.	not available for any reference period
..	not available for a specific reference period
...	not applicable
p	preliminary
r	revised
x	confidential
E	use with caution
F	too unreliable to be published

Highlights

In this issue

The labour market in 2003

- Employment growth was slow for most of 2003, but soared in the final four months. The unemployment rate averaged 7.6%, down marginally from 2002.
- Just over 15.7 million people were employed in 2003, up 334,000 (2.2%) from 2002. At 62.4% of the working-age population, this was the highest annual employment rate on record. Much of the gain was in full-time work.
- The continued strength of the housing sector contributed to a 5.5% surge in construction employment, as well as a 4.5% increase in employment in finance, insurance and real estate.
- Self-employment posted its second consecutive yearly gain. After falling 154,000 between 1999 and 2001, self-employment increased 37,000 in 2002 and another 67,000 in 2003.
- Employment in manufacturing fell 32,000 (or 1.4%), with the weakness concentrated in computer and electronic as well as transportation equipment.
- Although employment in public administration surged 37,000 in 2003, it remains well below its peak in 1993. In 1993, civil servants made up 6.7% of the workforce, compared with 5.2% in 2003.

Retirement plan awareness

- Many workers do not clearly understand their retirement plan coverage and, in particular, confuse RPPs and group RRSPs. Of those who reported having a group RRSP at their job, one in four worked in firms that did not offer one. Among those who reported having an RPP, one in six were in firms without one.
- Low seniority explains why young workers appear less informed about their retirement plans than their older counterparts. Almost 20% of employees with less than two years seniority who reported having a retirement plan worked for firms reporting none. The corresponding proportion is at most 7% among employees with 10 or more years seniority.
- University graduates, unionized workers, workers in large establishments, and those employed in finance and insurance, and communication and other utilities appear to be better informed than other workers.
- Overall, 4% of full-time permanent employees in the private sector thought they had a retirement plan but didn't. Lack of understanding is more acute among recent immigrants. Their rate was 9%, twice as high as Canadian-born workers.

A C/QPP Overview

- In July 2003, over four million people received \$1.9 billion in benefits. Retirement benefits accounted for 71% of CPP payouts, survivor benefits for 14%, and disability for 12%. The situation was similar for the QPP: 70% for retirement, 20% for survivor, and 9% for disability.
- In 2001, 91% of elderly families received C/QPP benefits, averaging one-sixth of their total income.
- In July 2003, the maximum retirement benefit was \$801.25. The average, however, was much lower: \$448.21 for the CPP and \$370.99 for the QPP.

- C/QPP benefits accounted for 16% of family income in 2001 compared with 10% in 1981, even as average income of recipient families grew by 17%.

- In 1981, 42% of all recipient families would have fallen into low income if not for their C/QPP benefits. By 2001, this proportion reached 85%.

- To support the fiscal viability of the plans, employee contribution rates increased from 1.8% of maximum pensionable earnings in 1986 to the 2003 level of 4.95%. Employers match these contributions, so total premiums equal 9.9% of maximum contributory earnings.

Perspectives

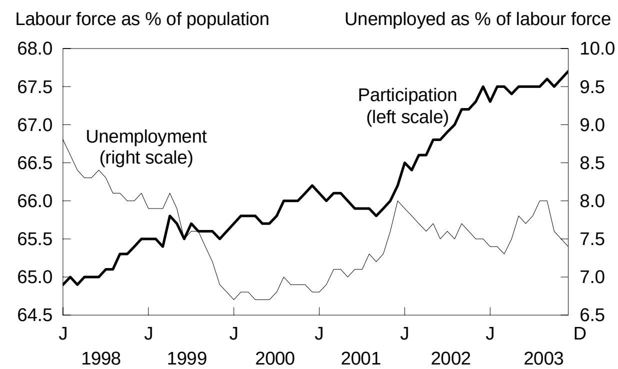
The labour market in 2003

Geoff Bowlby

Following a tremendous gain in employment the previous year, 2003 got off to a slow start. During the first eight months, employment growth was minimal. Over the year, the economy was rocked by a rapidly rising Canadian dollar, and probably to a lesser extent by war in Iraq, the SARS scare, and the Ontario-U.S. power outage. The last time the labour market saw such a sustained period of weakness was in 2001, when Canada narrowly avoided a recession.

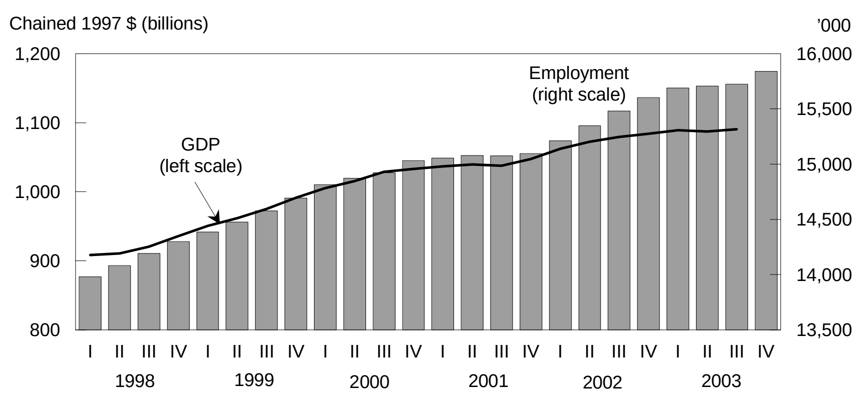
However, employment surged forward during the last four months, and in the end the labour market salvaged some modest improvement for the year (Chart A). On average, just over 15.7 million people were employed in 2003, up 334,000 (2.2%) from 2002. At 62.4% of the working-age population, this was the highest annual employment rate on record.

Chart B: High participation rate throughout 2003; unemployment rate rose, then fell as employment picked up.



Source: Labour Force Survey, seasonally adjusted

Chart A: Employment growth was slow for most of 2003, but soared in the final four months.



Sources: Labour Force Survey; System of National Accounts, seasonally adjusted

Much of the gain in the last four months was in full-time work. For the year, there were 253,000 more full-time workers than the year earlier, an increase of 2.0%. Part-time increased 81,000 (2.8%).

While participation rates remained at historical highs throughout the year, the unemployment rate rose at the start of the year, when employment growth was weak, but fell at the end (Chart B). For the year, it averaged 7.6%, down marginally from 2002.

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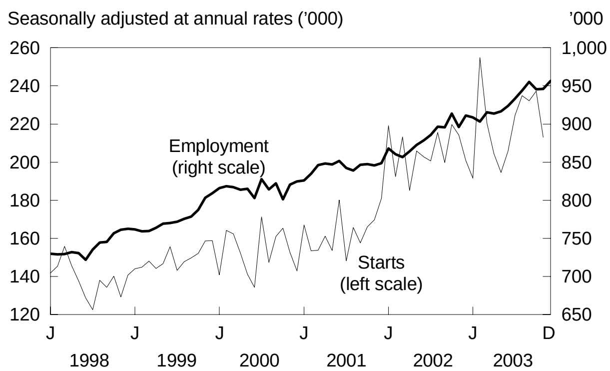
Employment buoyed by new housing and re-sales

With continued low mortgage interest rates driving demand and low stocks of homes available to a growing number of buyers, construction was robust throughout 2003 (Chart C) and on its way to the most housing starts since the late 1980s.

The continued strength of the housing sector helped employment gains in 2003. On average, construction employment in 2003 was 49,000 (5.5%) higher than in 2002. As a spin-off, employment in finance, insurance and real estate was 41,000 higher (4.5%) than in 2002, with most of the gain in real estate.

Added construction and real estate jobs led to a second consecutive gain in self-employment. In 2003, self-employment increased 67,000 following a gain of 37,000 in 2002. Prior to this, self-employment had been on a downward trend, falling 154,000 between 1999 and 2001.

Chart C: Construction employment grew, pushed by strong housing starts.

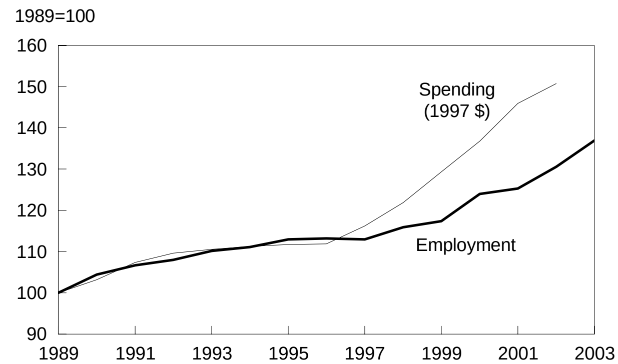


Sources: Labour Force Survey, seasonally adjusted; Canada Mortgage and Housing Corporation

More health care and social assistance employment

With health-care spending tracking upward, health-care and social-assistance employment continued to grow in 2003 (Chart D), much of it concentrated in Ontario and Quebec. For the year, employment in the industry increased 77,000 from the average in 2002.

Chart D: Increase in health care spending meant more jobs.



Sources: Labour Force Survey, Canadian Institute for Health Information
Note: Health expenditure data for 2001 and 2002 are forecasts and subject to revision.

Since 1996, health-care spending in Canada has increased 35%, three times the growth of the lean period between 1990 and 1996. As a result, employment in the industry has also jumped. From 1996 to 2003, health-care and social-assistance employment increased 20.9%, a pickup from the 8.5% gain during the previous six-year period.

Another big source of jobs in 2003 was public administration (Table 1). After falling for seven years, employment in public administration has increased in every year since 2000, including a surge of 37,000 in 2003. However, even with the recent gains, employment in public administration (at 815,000) remains well below its peak in 1993. In 1993, civil servants made up 6.7% of the workforce, compared with 5.2% in 2003.

The majority of the 2003 gain in public administration was at the federal level. Ottawa-Gatineau received the lion's share of the new federal employment, helping to dramatically improve the labour market in that area. On average, the unemployment rate was 6.8% in Ottawa-Gatineau, down from 7.2% the year before.

Together, public administration and health care and social assistance drove the gain of 90,000 in public-sector employment in 2003. The year before, education and health care were responsible for most of the increase.

Table 1: Employment by industry

	Average 2003	Change from 2002	
	'000		%
Total employed	**15,746.0**	***334.2***	***2.2***
Goods-producing sector	**3,986.1**	***43.5***	***1.1***
Agriculture	339.5	*9.5*	*2.9*
Forestry, fishing, mining, oil and gas	289.7	*17.7*	*6.5*
Utilities	131.5	*0.0*	*0.0*
Construction	931.4	*48.6*	*5.5*
Manufacturing	2,294.0	*-32.2*	*-1.4*
Services-producing sector	**11,759.9**	***290.6***	***2.5***
Trade	2,460.7	*30.7*	*1.3*
Transportation and warehousing	766.8	*10.6*	*1.4*
Finance, insurance, real estate and leasing	936.2	*40.6*	*4.5*
Professional, scientific and technical services	999.5	*6.2*	*0.6*
Management, administrative and support	612.2	*20.8*	*3.5*
Educational services	1,050.3	*34.4*	*3.4*
Health care and social assistance	1,684.3	*77.3*	*4.8*
Information, culture and recreation	704.5	*-0.3*	*0.0*
Accommodation and food services	1,022.3	*18.4*	*1.8*
Other services	707.9	*14.7*	*2.1*
Public administration	815.2	*37.2*	*4.8*

Source: Labour Force Survey

Shipments from Canadian plants fell through most of 2003, creating widespread losses in manufacturing. Overall, from January to October, shipments were down 0.4% from the same period a year earlier. Driving the trend was a modest decline in transportation equipment (-4.4%). For the first 10 months of 2003, cumulative new motor vehicle sales in Canada were 4.2% below the same period in 2002, a record year when sales climbed 8.5%. The reduced domestic demand for automobiles does not explain all the weakness in automobile and parts manufacturing in Canada, since most products are destined for export. Over the January to October period, automobile and parts exports from Canada were down almost 10% from the same period a year earlier.

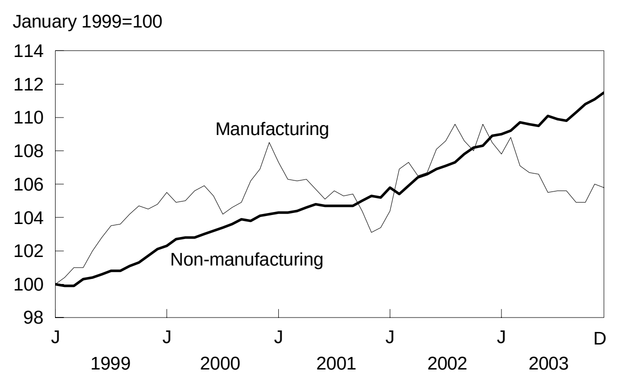
With consumer spending having risen for the better part of the last seven years, employment in retail and wholesale trade continued to advance. In 2003, trade employment averaged 2.5 million, 31,000 higher than the previous year. Much of the gain resulted from added jobs in food stores.

Reduced output at auto plants and continued weakness in high-tech pulled down manufacturing

A rapidly rising Canadian dollar, which made Canadian goods more expensive to American customers, combined with reduced auto sales and a continued slump in high-tech, hobbled manufacturing in 2003. Employment in the industry fell 32,000 from the previous year's average level. The weakness was concentrated in computer and electronic as well as transportation equipment.

The decline in manufacturing employment had a significant influence on the overall employment trend. In fact, employment outside manufacturing rolled along at 2.9%, a similar pace to the year earlier (Chart E).

Chart E: Non-manufacturing employment grew steadily in 2003.



Source: Labour Force Survey, seasonally adjusted

Declines also continued for shipments of computer and electronic equipment, falling 14.3% in the first 10 months of 2003. The value of computer and electronic equipment shipments was half the 2000 level, when high-tech production was at its peak.

Some encouraging signs at the end of the year

Helping offset the negative effects of the rapidly rising Canadian dollar was an amazing spurt of economic growth in the United States at the end of 2003. In the third quarter, U.S. gross domestic product leapt an annualized 8.2%. Other international markets appear to be on track to help Canadian economic growth. The composite leading indicator produced by the Organisation for Economic Co-operation and Development suggests moderate to strong recovery. The index points to continued accelerating performance in the United States and improving performance in Euro currency countries, particularly Germany and France.[1] In Canada, the leading index increased significantly in the last quarter of 2003, jumping 0.8% in December.

Table 2: Selected labour market estimates for major age-sex groups

	Average 2003	Change from 2002	
	'000		%
Employment	**15,746.0**	***334.2***	***2.2***
Men	8,406.7	*144.7*	*1.8*
15 to 24	1,220.1	*10.9*	*0.9*
25 to 54	6,038.2	*45.5*	*0.8*
55 +	1,148.4	*88.2*	*8.3*
Women	7,339.3	*189.5*	*2.7*
15 to 24	1,186.8	*29.0*	*2.5*
25 to 54	5,337.5	*58.9*	*1.1*
55 +	815.0	*101.6*	*14.2*
Unemployment	**1,300.9**	***23.3***	***1.8***
Men	729.2	*1.4*	*0.2*
15 to 24	225.4	*6.4*	*2.9*
25 to 54	426.4	*-15.1*	*-3.4*
55 +	77.5	*10.1*	*15.0*
Women	571.6	*21.8*	*4.0*
15 to 24	159.6	*4.4*	*2.8*
25 to 54	365.5	*13.0*	*3.7*
55 +	46.5	*4.4*	*10.5*
			%-point
Unemployment rate	**7.6**		***-0.1***
Men	8.0		*-0.1*
15 to 24	15.6		*0.3*
25 to 54	6.6		*-0.3*
55 +	6.3		*0.3*
Women	7.2		*0.1*
15 to 24	11.9		*0.1*
25 to 54	6.4		*0.1*
55 +	5.4		*-0.2*

Source: Labour Force Survey

Manufacturing sector affected youth and core-age workers

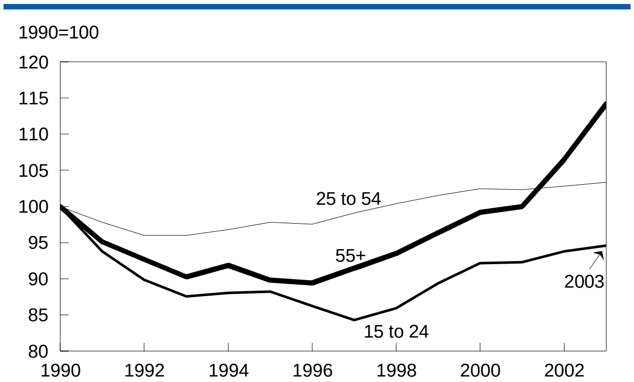
Youth and core-age workers (25 to 54) were affected most by the manufacturing slump. On average, 15,000 fewer youths and 26,000 fewer core-age workers worked in manufacturing in 2003.

Nevertheless, all major age-sex groups managed employment gains (Table 2). The largest came from people 55 and older—in part because baby boomers are now entering this age group. The annual average growth rate for this group was 10.7% in 2003, shared by men and women. For older women, the largest component of the increase came from added employment in health care and social assistance. For older men, the gain was in education, construction and real estate.

The year 2003 marked the third consecutive year that older workers have led the way in the labour market (Chart F). The median age of retirement in Canada in 2003 was close to 62, up somewhat from the lows of the 1997-1999 period, when it was just under 61.

Among core-age workers, women were the main beneficiaries of public-sector hiring. On average, employment in 2003 among core-age women was up 59,000 (1.1%) from the year earlier. Over three-quarters of the gain occurred in health care and social assistance (25,000 or 2.4%) and public administration (19,000 or 6.4%).

Chart F: The employment rate rose sharply for those 55 and over in 2003.



Source: Labour Force Survey

Employment among core-age men also increased in 2003, largely the result of the construction boom. Overall, employment for core-age men was up 46,000 (0.8%), propelled by a 21,000 gain in construction.

While youth employment fell through much of the year, the average level of employment among this group remained high. Youth employment averaged 2.4 million in 2003—40,000 or 1.7% higher than the year before. Employment in retail and wholesale trade was higher for youth than the year earlier.

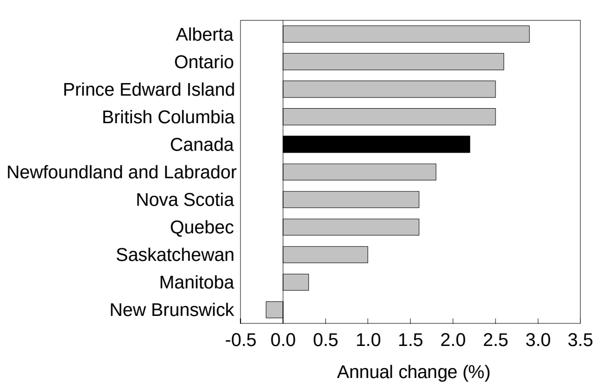
Strongest employment gains in Alberta

Employment growth has been strong in Alberta for over a decade. In 2003, employment increased a further 48,000 (2.9%) from a year earlier (Chart G), driven by added hiring in the oil patch and in retail and wholesale trade. For the year, the unemployment rate in Alberta was 5.1%, down 0.2 percentage points from the year earlier. All age groups saw employment increases in 2003.

Half the increase in natural resource employment was in Alberta. Oil industry employment was 9,000 higher than the year earlier in that province. According to the Canadian Association of Oilwell Drilling Contractors, drilling activity increased significantly in Canada in 2003, with oil and gas explorers completing a record number of wells.

In December, the employed share of the working-age population in Alberta hit 70.2%, the highest employment rate on record for any province. In both Calgary and Edmonton, the employment rate was very high. In Calgary, it averaged 71.5%, the highest of any major city in Canada, while in Edmonton, third highest, it hit 68.5%. Employment growth in both Calgary (2.1%) and Edmonton (2.8%) was robust in 2003.

Chart G: Employment growth in 2003 was strongest in Alberta.



Source: Labour Force Survey

Driven by gains in Vancouver, employment also expanded in British Columbia in 2003. The average level in the province was 50,000 (2.5%) higher than in 2002, with Vancouver up 34,000 (3.2%). A number of industries hired in 2003, mostly in the service sector. The unemployment rate in British Columbia was 8.1% in 2003, down from 8.5% the year previous.

In Ontario, employment was higher than in 2002. Despite weakness over the summer months in the Toronto area, employment gains at the start and end of the year helped push employment 160,000 (2.6%) higher than the year before. The unemployment rate averaged 7.0% in 2003, down only slightly for the year.

Almost all of the decline in manufacturing occurred in Ontario and Quebec. In Ontario, just under 1.1 million people were employed in manufacturing, down 28,000 (-2.5%) from 2002. Motor vehicle equipment, metal production, and computer manufacturing were the main sources of the decline.

Following a very strong 2002, employment growth slowed in Quebec. On average, employment was 57,000 higher than in 2002 (1.6%), just under half the increase in 2002 (118,000 or 3.4%). Employment trends changed in the two largest industries in the province—manufacturing and trade. After a gain of 13,000 in 2002, manufacturing employment fell 17,000 in 2003. In trade, following a jump of 36,000 the year earlier, employment increased by only 11,000 in 2003.

As in many other provinces, people in Quebec continued to participate in the labour market in record number, even with slower job gains. With labour market participation high, the unemployment rate in Quebec increased to 9.1% in 2003, up half a percentage point.

In Prince Edward Island, employment increased 2.5% (1,700), similar to the pace in the preceding two years. On average, in 2003 the unemployment rate was 11.1%, the lowest since 1980. Employment rates have been climbing for six years in the province, hitting a new high of 60.8% in 2003.

In Nova Scotia, employment grew at the start of the year, fizzled over the summer, only to rebound at the end of the year. In total, employment was up 7,000

(1.6%) for the year, enough to knock the unemployment rate to 9.3% (down 0.4 percentage points) and push the employment rate to a record high 57.3% (up 0.6 points).

Employment increased in Newfoundland and Labrador for the third consecutive year. In 2003, it increased 4,000 (1.8%) compared with the year earlier. Although lower than 10 years ago, unemployment remains stubbornly high in Newfoundland and Labrador. The rate was 16.7%— about the same as the year earlier. A large difference remained between the unemployment situation in St. John's, where the rate was a relatively low 9.6%, and rural Newfoundland and Labrador, where it averaged 21.0%.

The other provinces saw no obvious improvement in their employment trends during 2003. While average employment levels in Manitoba and Saskatchewan were higher than the year before, this was only because these provinces held on to gains made during 2002; there was no net job creation during 2003.

Despite the lack of job creation during the year, employment rates in both Manitoba and Saskatchewan remained high in 2003. In Manitoba, the share of the working-age population employed averaged 65.5% in 2003—above the national average and close to the record of 65.6% set in that province the year earlier. In Saskatchewan, the employment rate was 64.4%, the highest on record. Unemployment remained low in both provinces in 2003.

The only province with lower employment in 2003 was New Brunswick. Following a gain of 3.3% in 2002, employment edged down 0.2%. This was enough to cause the unemployment rate to edge up 0.2 points to 10.6%. Employment levels in accommodation and food fell 4,000, the largest drop of any industry in the province.

Perspectives

Note

1 OECD leading indicator information available at www.oecd.org/document/46/0,2340,en_2649_34349_21258734_1_1_1_1,00.html (accessed January 16, 2004).

Retirement plan awareness

René Morissette and Xuelin Zhang

In addition to wages, many employees receive benefits such as dental, life or supplemental medical insurance plans. Employer-sponsored retirement plans—registered pension plans (RPPs), group RRSPs and deferred profit-sharing plans—are another key component of total compensation.

During the mid-1990s, firms were thought to be moving from defined-benefit registered pension plans toward defined-contribution arrangements—particularly group RRSPs—because RPPs were more costly to administer and subject to substantial regulation. While subsequent examination showed the death of defined-benefit plans to be greatly exaggerated (Frenken 1996), the growing popularity of group RRSPs presents employees with a greater variety of employer-sponsored retirement plans than in the past.

But, can all employees make the distinction between RPPs and group RRSPs? How many think they have a RPP even though their employer does not provide one? How many mistakenly think they have a group RRSP? Most important, how many think they have at least one of the two but, in fact, have neither?

Accurate information about one's employer-sponsored retirement plan is crucial in deciding the timing of retirement, the role personal savings will play, and the allocation of one's portfolio between safe and risky investments. Such information is especially important since, contrary to many RPPs, group RRSPs require workers to decide whether to participate and if so, how much to contribute.

Using the Workplace and Employee Survey (WES), this article first reviews trends in RPP coverage over the last decade and provides estimates of workers with group RRSPs (see *Data source*). It then examines how well full-time permanent employees in the private sector understood their coverage in an employer-sponsored retirement plan in 2001.[1]

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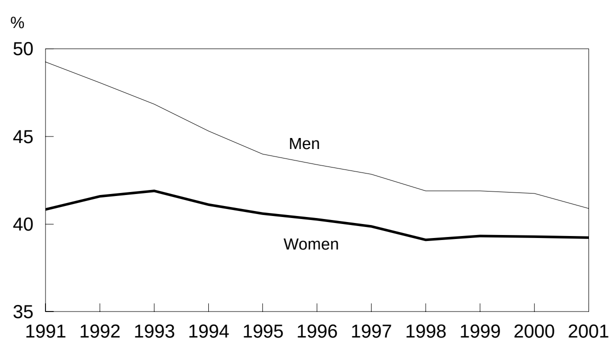
Trends in RPP coverage

In Canada, the retirement plans most commonly offered by employers are registered pension plans (RPPs), group registered retirement savings plans (group RRSPs), and deferred profit-sharing plans (DPSPs). Registered pension plans are by far the most popular. While information on DPSPs is limited, the available evidence suggests participation in them is fairly low—only 350,000 workers in 1993 compared with 5.2 million who had RPPs (Frenken 1995).[2]

According to the Pension Plans in Canada Survey, at the end of 2001 about 5.5 million employees—representing 40% of all employees, including those in the public sector—had an RPP in their job (Chart A). This percentage was down from 45% in 1991.[3] Among men, coverage fell 8 percentage points to 41%; for women the drop was much less—from 41% to 39%.

Chart A: After declining through most of the 1990s, RPP coverage stabilized.



Source: Pension Plans in Canada Survey

These numbers hide diverging trends between younger women (aged 25 to 34) and prime-aged women (aged 35 to 54). Between the mid-1980s and the late 1990s, RPP coverage increased among prime-aged women but fell among young women (Morissette and Drolet 2001). In contrast, both younger men and prime-aged men saw their percentage fall.

Group RRSPs

While anecdotal evidence suggests that group RRSPs are becoming more popular, information on employee participation is difficult to obtain from survey data since many workers do not appear to have a clear understanding of what constitutes a group RRSP.

In 2001, 2.1 million private-sector employees reported having a group RRSP in their job (Table 1). However, fully half a million were employed by firms having *no* group RRSPs. Only 1.6 million employees, representing 14% of the private-sector workforce, reported having a group RRSP *and* were in firms offering group RRSPs to at least some employees.[4]

Among workers who reported having a group RRSP but were in firms that did not have one, fully two-thirds had an employer that offered an RPP to at least part of the workforce. This suggests that many workers confuse group RRSPs with RPPs.[5] It is unlikely that the discrepancy originates from employers not reporting a group RRSP even though they have one in the workplace—for several reasons. First, employers must negotiate administration fees and investment returns with financial institutions when they sponsor group RRSPs. Second, they must make automatic payroll deductions for employee contributions. Third, employer contributions to group RRSPs are treated as earnings and hence are subject to all payroll deductions. Taken together, these factors strongly suggest that employers who offer group RRSPs are fully aware that they do so.[6]

Furthermore, employers are likely to have a clear understanding of the distinction between RPPs and group RRSPs. First, unlike group RRSPs, RPPs are subject to federal or provincial regulatory legislation. Second, employers must pay for actuarial services for defined-benefit RPPs. Third, employer contributions to RPPs are not considered part of an employee's earnings and so are not subject to payroll taxes (see *Features of RPPs and group RRSPs*).

Workers' knowledge of retirement plans

Be it RPP or group RRSP, as long as workers have some type of retirement plan, they will probably not suffer serious consequences as long as they have a clear understanding of its generosity. More serious concerns could eventuate if workers think they have an RPP or group RRSP but their employer provides neither.

In 2001, about half of full-time permanent employees in the private sector reported having an RPP or a group RRSP (Table 2). However, 8% of them were working for firms having neither type of plan. This means that 4% of full-time permanent employees in the private sector (390,000) thought they had a retirement plan but didn't.

Workers who have been in a company for only a short time and are not familiar with the fringe benefits may have a poorer knowledge of their retirement plans than those with more seniority. This likely explains why almost 20% of employees with less than two years of seniority who reported at least one retirement plan worked for firms reporting no retirement plans. The corresponding proportion is at most 7% among employees with 10 or more years of

Table 1: Employees reporting a retirement plan in their job

	'000	%
Employees in private sector	**11,605**	**...**
Report participating in a group RRSP	**2,079**	**100.0**
In firms offering group RRSPs to some employees	1,570	75.5
In firms offering no group RRSPs	509	24.5
Offering RPPs to all full-time permanent employees	327	15.7
Offering RPPs to some employees	20	1.0
Offering no RPPs	162	7.8
Report participating in a RPP	**4,440**	**100.0**
In firms offering group RPPs to some employees	3,707	83.5
In firms offering no RPPs	732	16.5
Offering group RRSPs to all full-time permanent employees	364	8.2
Offering group RRSPs to some employees	45	1.0
Offering no group RRSPs	323	7.3

Source: Workplace and Employee Survey, 2001

Data source

The sample of 17,061 permanent full-time, private-sector employees used in this study was drawn from the 2001 **Workplace and Employee Survey** (WES). WES consists of both employer and employee components. Employers are sampled by physical location—the statistical unit that comes closest to the concept of a workplace in which employer and employee activities can be linked. Employees are then sampled within each location using employer-provided lists. WES covers all industries except farming, fishing, hunting, trapping and public administration.

Employees were asked if their employer offered any non-wage benefits, such as a pension, life insurance, or dental plan. Those answering yes were then asked if they participated in an employer-sponsored pension plan. The question stated that this did not include C/QPP or group RRSPs. The next question specifically asked if they participated in a group RRSP.

Employers were asked if they offered any non-wage benefits—health-related, pay-related, or pension-related. The examples given for pension-related benefits were pension plans and group RRSPs. They were then presented with a list of non-wage benefits and asked to indicate which were not available, available to all, available to non-management non-union employees, or available to non-management union employees.

seniority. In fact, low seniority explains why young workers appear less informed about their retirement plans than their older counterparts.[7]

University graduates, unionized workers, workers in large establishments, and those employed in finance and insurance, and communication and other utilities appear to be better informed than other workers. Among those who reported having a retirement plan, at most 3% were in firms providing neither RPPs nor group RRSPs.

Recent immigrants

Of the one-third of recent immigrants (those who arrived in 1991 or later) who reported having an RPP or a group RRSP in their job, 27% worked for employers who did not provide a plan. This means that 9% of all recent immigrants reported, contrary to their employer, that they had at least one retirement plan—a proportion twice as high as observed among Canadian-born workers.

Table 2: Workers reporting at least one retirement plan

	Total	No plan in firm
	%	
Both sexes	**51.1**	**8.2**
Men	52.0	9.0
Women	50.0	7.2
Age		
Less than 25	22.3	17.5
25 to 34	46.0	11.1
35 to 44	50.4	9.1
45 to 54	63.3	5.5
55 and over	55.6	5.0
Seniority		
Less than 2 years	26.8	19.0
2 to 5	42.2	11.8
5 to 10	53.2	7.5
10 to 20	64.8	6.5
20 or more	76.6	2.2
Education		
High school or less	39.4	10.7
Some postsecondary	49.6	12.1
Postsecondary certificate/diploma	55.1	7.8
University degree	64.7	2.8
Immigration status		
Canadian-born	51.6	7.2
Arrived 1991 or later	32.9	26.7
Arrived before 1991	54.2	9.2
Union status		
Non-member	40.8	12.3
Member	77.6	2.7
Region		
Atlantic provinces	54.4	4.0
Quebec	46.9	7.7
Ontario	53.9	8.7
Manitoba	60.6	5.9
Saskatchewan	56.9	3.9
Alberta	44.3	7.0
British Columbia	47.9	11.7
Employer characteristics		
Single location	38.1	15.2
Multiple locations	70.5	2.4
1 to 19 employees	21.2	29.2
20 to 99	44.7	14.5
100 to 499	64.7	3.6
500 or more	85.4	0.4
Manufacturing	52.3	8.2
Other goods	44.4	12.4
Finance and insurance, and communication and other utilities	72.8	0.7
Transportation, warehousing, wholesale and retail trade, and consumer services	35.6	17.4
Other services*	60.5	4.8

Source: Workplace and Employee Survey, 2001
** Real estate, rental and leasing operations, business services, education and health, information and cultural industries.*

Features of RPPs and group RRSPs

Employer contributions are mandatory for RPPs, optional for group RRSPs.

Employers offering an RPP are required by law to contribute to it. In contrast, those offering a group RRSP may choose not to contribute—although the concept of employer contributions to group RRSPs is not well defined.

A group RRSP is simply a collection of individual accounts set up through the employer. The employer may put a certain amount of money into the plan for each contributor, or may contribute nothing and simply collect the employee contributions through payroll deductions. In either case, the employer will contract a financial institution (for example, a mutual-fund company) to invest the funds.

Because the federal Income Tax Act recognizes only contributions made by employees, employers contribute indirectly by increasing an employee's pay and then contributing the increase to the group RRSP through payroll deduction. The amount contributed by the employer is recorded on the employee's T4 slip as employment income. The employee can then claim the contribution as a tax deduction.

For instance, suppose Employee A is paid $40,000 per year and offered the chance to contribute 5% of her salary to a group RRSP to which the employer also contributes 5%. If she agrees, her pay will be increased from $40,000 to $42,000, and then $4,000 deducted (the employee contribution of $2,000 and the pay increase of $2,000) for investment with a financial institution. Employee A will report employment income of $42,000 and claim a deduction of $4,000 when filing her tax return.

Workers with the same employment income will have the same opportunity to prepare for retirement.

As long as the employment income shown on the T4 is the same, workers in firms offering a group RRSP but not contributing to it will have the same opportunity to prepare for retirement as their counterparts in contributing firms.

Compare the situation of Employee A to that of Employee B, paid $42,000 but employed in a firm offering a group RRSP but not contributing to it. If Employee B decides to put $4,000 into this group RRSP (the amount invested in the account of employee A), he can claim the amount as a tax deduction while also reporting $42,000 of employment income.

The same reasoning can be applied to Employee C, also paid $42,000 but employed in a firm offering no retirement plan. Employee C saves $4,000 per year in an *individual* RRSP and gets the same rate of return as employees A and B who have group plans. (This may not always be the case, since the employers can sometimes bargain with financial institutions for better rates of return.) Employee C would be as well off as A and B.

Contrary to defined-benefit RPPs, group RRSPs do not guarantee workers a certain level of income at retirement.

At the beginning of 2000, about 85% of workers with an RPP had a defined-benefit plan. In the absence of business failure, most of these RPPs guarantee workers a certain retirement income, which usually increases with years of service and pay. In contrast, group RRSPs, like defined-contribution RPPs, provide a retirement income that depends on the rate of return in the financial markets—which is subject to fluctuation.

Consequently, *if* they enjoyed high rates of return on their savings while they were in the labour market, workers in group RRSPs—like those in defined-contribution RPPs—could (but would not necessarily) end up with a higher retirement income than those in defined-benefit RPPs.[8] They could also end up with a lower retirement income if the financial markets performed poorly.

Employees in defined-benefit RPPs also face some uncertainty regarding their retirement income.

While not subject to the investment risk faced by workers with group RRSPs, employees in defined-benefit RPPs who are laid off face some uncertainty regarding the level of income they will receive at retirement. Employees who spend their career with the same employer and have defined-benefit RPPs know in advance what their retirement income will be. However, if they are laid off they could end up with a lower retirement income than anticipated, if their benefits cannot be transferred from one plan to another.

To illustrate, suppose Mr. X works for the same employer for 35 years, earning $40,000 a year for the first 15 years and $80,000 for the last 20 years. If he belongs to a defined-benefit RPP that pays a benefit equal to 2% per year of service, based on average earnings during his last five years, Mr. X will have a retirement income of $56,000 a year.

However, if Mr. X is laid off after 15 years and immediately finds a new job paying $80,000 that he keeps for the next 20 years, he will end up with a retirement income of only $44,000 if the benefits of his first plan are not portable. He will receive $12,000 from his first RPP (.02 x 15 x $40,000) and $32,000 from his second RPP (.02 x 20 x $80,000).[9]

In a group RRSP, the employee never loses employer contributions after leaving the firm.

Before the mid-1980s, workers with RPPs who were contemplating leaving a company had to think twice. If they quit, they would possibly not be entitled to their employer's contributions until age 45 and after 10 years of service. If they left before this period (the vesting period), they would receive only their own contributions, albeit usually with interest. Some firms did, however, offer better vesting rules.

During the mid-1980s and early 1990s, pension legislation was modified so that employees changing jobs were generally entitled to their employer's contributions after two years of service.[10]

In a group RRSP, an employee never loses employer contributions. The money (from both employer and employee contributions plus return on investment) can be transferred to an individual RRSP. The ability to collect employer contributions even after a short stay in a company (less than two years) may be attractive for highly mobile workers.

This discussion draws heavily on Cohen and Fitzgerald (2002), who provide an excellent survey of the various retirement programs in Canada.

Why are recent immigrants less informed about their retirement plans? Differences in educational attainment can be ruled out since recent immigrants are more educated than their Canadian-born counterparts (Table 3). Lower seniority and under-representation in large establishments (500 or more employees) and in unionized jobs, where the incidence of misinformation appears to be minimal, may explain part of the difference. However, even after controlling for these differences and other factors, at least 70% of the difference between recent immigrants and Canadian-born workers remains.[11]

What explains the remaining difference? Despite their fairly high educational attainment, recent immigrants may have an imperfect knowledge of the labour market institutions in Canada. For instance, since they contribute through payroll deductions to the Canada or Quebec Pension Plan (C/QPP), some may think that these retirement plans are employer-sponsored. The data support this view. Among recent immigrants who reported having an RPP in their job, a solid 53% were in firms with no RPPs (Chart B). The corresponding numbers for Canadian-born workers and older immigrants were 15% and 20% respectively.

A key issue then is whether recent immigrants have realistic expectations about the fraction of employment income that C/QPP will replace at retirement. Whatever the underlying factors, the consequence is that almost 1 recent immigrant in 10 appears to be seriously misinformed about their coverage in an employer-sponsored retirement plan.[12]

Conclusion

Given the increasing popularity of alternative retirement plans such as group RRSPs, assessing employee awareness of their coverage by some type of retirement plan in their job becomes more important. This is particularly true since group RRSPs, contrary to many RPPs, require workers to decide whether to participate and, if so, how much to contribute.

Unlike their employers, many workers do not have a clear understanding of the distinction between RPPs and group RRSPs.[13]

While only 4% of all full-time permanent employees in the private sector reported an RPP or group RRSP while being in a firm reporting neither, the corresponding proportion was twice as high among immigrants who arrived in Canada in 1991 or later. In fact, one in four recent immigrants who reported at least one type of employer-sponsored retirement plan in their job was actually working for a firm providing neither an RPP nor group RRSP.

In 1999, about one-third of families with a major income recipient aged 45 to 64 and still working had not saved enough to replace two-thirds of their income at retirement (Statistics Canada 2001). While savings insufficient to provide adequate income at retirement may result from income constraints, the misconception of having a private retirement plan may also be a contributing factor. To address this issue, it is important to emphasize differences between RPPs, group RRSPs and C/QPP and to provide workers with accurate information about the coverage and characteristics of their retirement plans. In this way, chances are increased that employees will make sound decisions about savings, consumption and retirement.

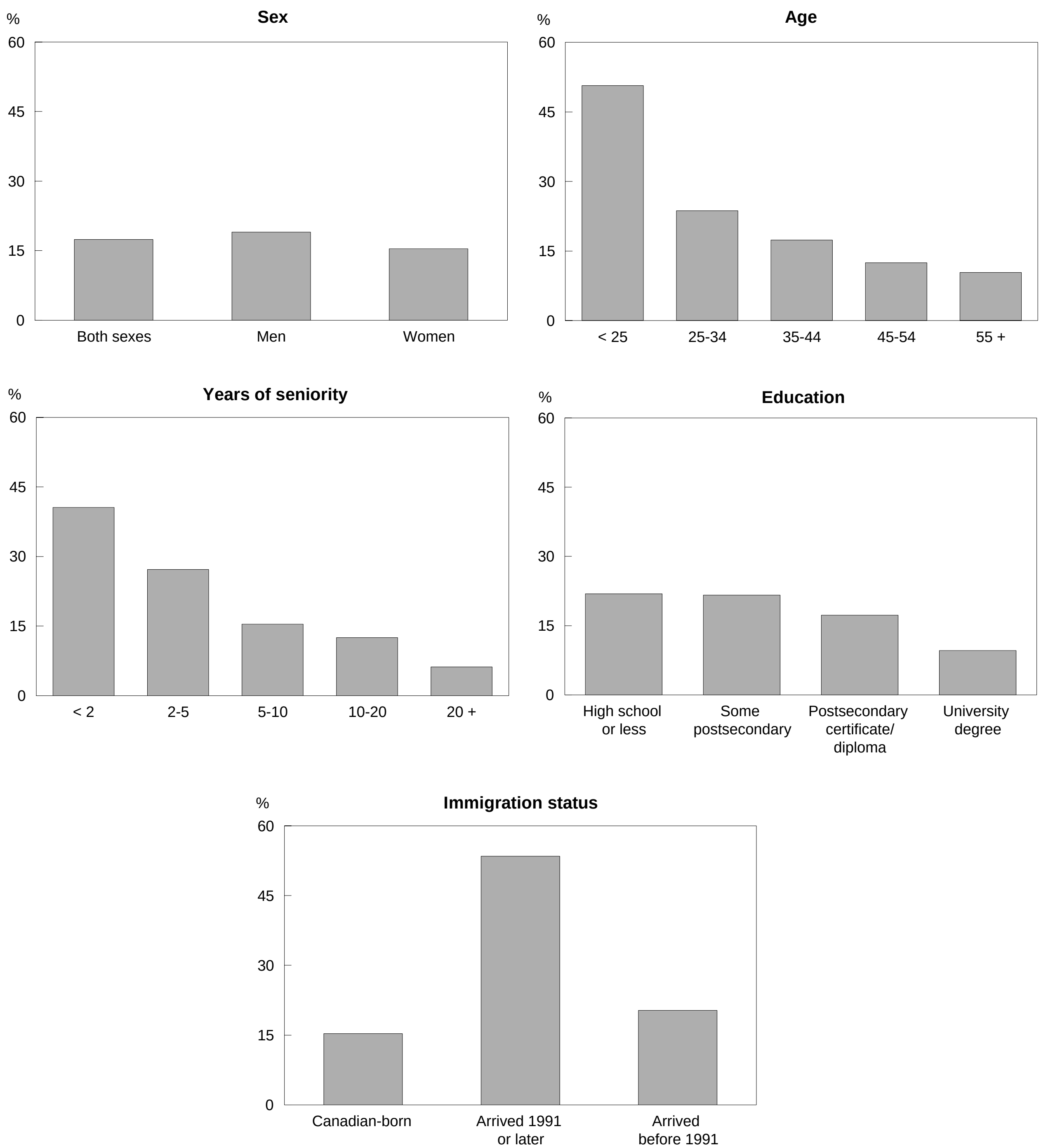
Perspectives

Table 3: Selected characteristics of immigrant and Canadian-born workers*

	Canadian-born	Arrived 1991 or later	Arrived before 1991
		%	
Education			
High school or less	30.5	23.1	26.2
Some postsecondary	24.9	15.9	20.9
Postsecondary certificate/diploma	26.2	28.5	31.3
University degree	18.4	32.6	21.6
Establishment size			
1 to 19 employees	28.7	33.2	26.0
20 to 99	30.1	33.7	28.0
100 to 499	18.2	21.5	21.1
500 or more	23.1	11.5	24.9
Less than 2 years seniority	19.8	40.1	13.0
Unionized workers	29.1	9.7	28.2

Source: Workplace and Employee Survey, 2001
** Full-time permanent employees*

Chart B: Among full-time permanent employees, young workers and recent immigrants were the most likely to erroneously report having a registered retirement plan.



Source: Workplace and Employee Survey, 2001

Notes

1 See Mitchell (1987) and Starr-McCluer and Sundén (1999) for U.S. evidence on worker knowledge of pension provisions.

2 Deferred profit-sharing plans "permit employees to share in company profits. Employer contributions, either a percentage of profits or a fixed dollar amount, are set aside in a fund. A separate account is maintained for each member, credited with investment income and paid out at the employee's death, retirement or termination." (Frenken 1995, p. 10)

3 Throughout the decade, the vast majority of RPP members were in defined-benefit plans—89.8% in 1991 compared with 84.1% in 2000.

4 This compares favourably with the estimate derived from the 1999 Money Purchase Plan report by Benefits Canada, which found that 1.5 million people were enrolled in such plans. The report was based on a survey of the main financial institutions offering money purchase plans to employers.

5 Similarly, of the 732,000 workers who reported having a RPP but were in firms that did not offer one, 56% were in firms offering group RRSPs to at least part of their workforce (Table 1).

6 For the employer portion of WES, the primary respondent is the human resource manager in a large establishment or the business owner in a small establishment.

7 The differences across age groups observed in the second column of Table 2 vanish in a logit model where the probability of an individual working in a firm reporting no retirement plan—conditional on workers reporting at least one retirement plan—is modelled as a function of age, seniority, education, sex, union status, immigration status, industry, establishment size and an indicator of multi-establishment employer. However, workers with less than 2 years seniority remain more likely to be misinformed than those with 10 years or more in this model.

8 This is more likely to happen if workers in defined-benefit RPPs changed employers during their career and could not transfer their pension assets to their new employer's RPP.

9 It is assumed here that both RPPs have the same benefit formula, and that the benefits from the first RPP cannot be transferred to the second RPP—which is the case for many defined-benefit RPPs offered in the private sector.

10 Under the new rules, vesting takes place after two years of participation in the plan, but only applies to employer contributions made after the effective date of the amendments. For employees who became members of an RPP after these amendments, vesting applies to all employer contributions.

11 The differences between recent immigrants and Canadian-born workers, observed in Table 2, are examined using two separate logit models (where the set of covariates is defined above). For workers who reported having a retirement plan, an initial probability of misclassification of 7.2% is assumed (that observed for Canadian-born workers). Then, being a recent immigrant raises the probability of misclassification by 14 percentage points—that is, 72% of the difference found in the raw data. For all workers, an initial probability of misclassification of 3.7% is assumed (that observed for Canadian-born workers). Then, being a recent immigrant raises the probability of misclassification by 4.3 percentage points—that is 84% of the difference found in the raw data. The marginal effect of a discrete covariate k, ΔP_k, is evaluated around the mean P of the dependent variable using the following formula: $\Delta P_k = [1+\exp(-x'b - b_k)]^{-1} - P$, where $x'b = \ln[P/(1-P)]$. See Gunderson, Kervin and Reid (1986), p. 267.

12 Federal/provincial regulatory pension legislation has certain disclosure rules, requiring employers to provide each RPP member with an annual statement showing such items as length of plan membership; amount of employee contributions (if required); estimates of future retirement benefits; and current benefits on termination, death or possibly disability. In the case of group RRSPs, financial institutions likely also produce an annual report for each member showing current market value of investments and the member's equity. Even though these statements identify the plan, one can safely assume that few members would study them and make note of the type of plan referred to.

13 It is possible that some workers reported having no group RRSP or RPP while being in a firm offering one or both of these plans. Since participation in group RRSPs is generally optional while participation in RPPs is sometimes optional, sometimes compulsory, this study was not able to investigate whether such responses represent another form of misclassification.

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A C/QPP overview

Raj K. Chawla and Ted Wannell

The Canada Pension Plan (CPP) came into effect in January 1966 to supplement the retirement incomes of working Canadians and provide survivor benefits in the event of their death.[1] Contributions to the plan are mandatory for nearly all employed persons.

The CPP covers all provinces and territories except Quebec, which has opted to run its own plan—the Quebec Pension Plan (QPP). However, the two plans are similar and have full portability between them. Their administration is fully co-ordinated, and the maximum allowable benefits for retirement, disability, and survivors over age 65 are the same.

Although almost all Canadian workers belong to either the CPP or QPP, and the plans are considered main income pillars for seniors, some misunderstandings persist. For example, some people are not aware that they must apply for benefits—that these are not automatically triggered by age, retirement or disability. Also, some financial commentators continue to question the solvency of the CPP even though the Chief Actuary of Canada has certified its ability to meet obligations well into the future.

This article uses a question and answer format to provide some basic information on the Canada and Quebec Pension Plans, emphasizing recent changes that may not be well understood (see *C/QPP milestones*). It also highlights the increasing importance of C/QPP benefits for seniors in recent decades and the interaction of the plans with other income support programs.

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C/QPP milestones

1966: The plans came into effect. The federal government and nine provinces agreed on CPP while the province of Quebec opted to operate its own plan.

1970: The first disability pension was paid.

1974: Annual adjustments were introduced to reflect the full cost-of-living increase as measured by the Consumer Price Index.

1975: The CPP no longer required persons aged 65 to 70 to retire from regular employment before receiving benefits. The QPP followed suit in 1977.

1976: Full retirement benefits became payable on the plans' 10th anniversary. From 1967 to 1975, 10% of the potential maximum retirement benefits were paid.

1978: Splitting of CPP pension credits earned during a marriage was allowed in the event of a divorce or annulment.

1980: Employment of a spouse in an unincorporated family business was considered pensionable employment if the remuneration was deducted under the Income Tax Act.

1987: Persons were allowed to claim reduced benefits at 60 or increasing benefits after 65 up to age 70. Also, the contribution rate began to increase.

1988: Contributions were changed from a tax deduction to a non-refundable tax credit of 17% of contributions.

1998: The CPP Investment Board was created to manage and invest accumulated savings and contributions not used to pay benefits.

1999: The QPP extended benefits to common-law (including same-sex) surviving partners. The CPP implemented this provision in 2000.

Source: Anderson (2003)

Who is covered?

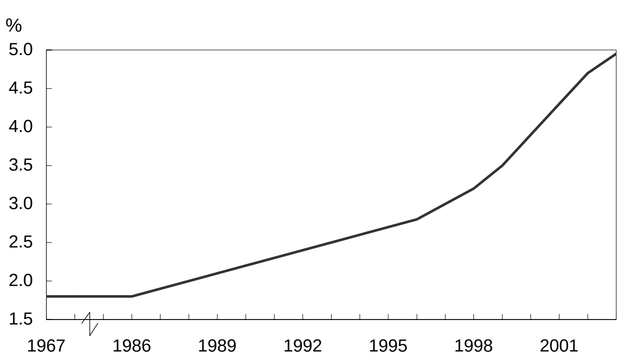
The plans cover all employed persons between the ages of 18 and 69 with earnings above an annual minimum ($3,500 in 2003) with certain exceptions: migratory agricultural and related enterprise workers, casual workers, exchange teachers, members of religious orders, members of the Canadian Forces or the RCMP, those employed by a foreign government, those employed in international transportation, or Indians as defined in the Indian Act (for more details, see CCH Canadian 1999).

How are the plans funded?
The plans are funded primarily through premium payments by workers and their employers. Assets accumulate when contributions received exceed benefits. Over time, then, a second component is investment income on these assets.

How are contributions calculated?
In 2003, employees paid 4.95% of all earnings up to $36,400—resulting in a maximum annual contribution of $1,801.80. Employers match these contributions so that total premiums equal 9.9% of maximum contributory earnings. Self-employed workers must cover both the employer and employee portion of the contributions, and so contribute the full 9.9% (to a maximum $3,603.60 in 2003).

Has the contribution rate been rising?
Yes. In 1967, an employee paid 1.8% of yearly contributory earnings to a maximum of $4,400 (or $79.20), with the employer paying a matching share. This rate remained in effect until 1986. Over the following decade, the rate rose by 0.1 percentage points per year, reaching 2.8% in 1996 (Chart A). Larger increases followed. In 2003, the rate reached a new plateau, 4.95%, which should hold for some years.

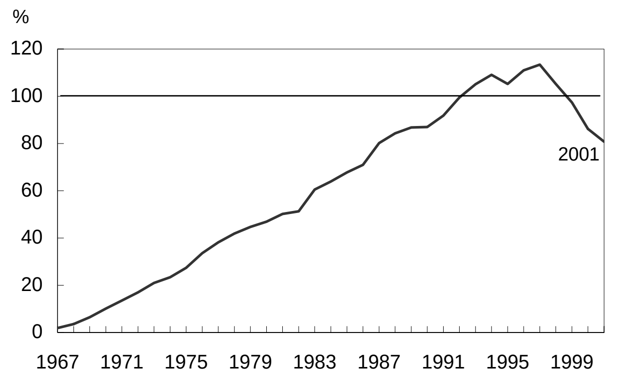
Chart A: CPP employee contribution rate.



Source: HRDC, The ISP Stats Book 2003

Why has the contribution rate risen?
The CPP was established as a pay-as-you-go system with the premise that the contribution of current workers plus the surpluses invested while the plan matured would always be sufficient to meet current payouts. The system was meant to be self-funded with no reliance on general revenues of either the federal or provincial government. Because of changing demographics, enriched benefits, and increased disability benefits, payouts exceeded premiums by the early 1990s (Chart B).[2] The subsequent premium increases led to renewed annual surpluses by 1999.

Chart B: Expenditure/revenue ratio for the C/QPP, 1967 to 2001.



Source: System of National Accounts

Is the CPP now in a surplus position?
Although the CPP is now accumulating annual surpluses, these funds will be required in the future to pay benefits to the increasing number of retirees. Since 1998, the plan has been operating under 'steady-state financing,' which requires that contribution rates be sufficient to ensure the plan's long-term financial stability without recourse to further rate increases (HRDC 2002). The intent of these changes is to finance the plan collectively so that no individual or generation will contribute disproportionately.

How are the funds managed?
The CPP currently has two investment components. The CPP Investment Fund consists of long-term government bonds issued before 1998.[3] Since 1999, the CPP Investment Board has been managing net inflows from contributions, investing in equity indexes.

Legislation passed in April 2003 will eventually bring both components under the management of the CPP Investment Board. Assets of both components totalled $52 billion (or about 2.5 years of benefits) in March 2002.

QPP funds are managed by the Caisse de dépot et placement du Québec. The Caisse also manages funds for other public-and private-sector depositors and invests in a wide range of asset classes.

What types of benefits are available?

The plan provides retirement and disability benefits to participants, and survivor and death benefits to their families.

Retirement benefits are based on 25% of pensionable earnings, adjusted for growth in the annual maximum pensionable earnings averaged over the previous five years. Benefits are reduced if the participant opts to receive them before age 65 (as early as 60) and increased if initial receipt occurs after 65 (see *C/QPP benefits*).

C/QPP benefits

Retirement benefits

A C/QPP retirement pension is about 25% of a person's average pensionable earnings, adjusted to reflect the average of the last five-year maximum pensionable earnings.

Full benefits are payable at age 65, but may begin as early as 60. Between age 60 and 65, the pension is reduced by 0.5% for each month (6% a year) preceding the 65th birthday, and increased the same amount for every month it is deferred past 65. In other words, contributors could decide to draw 100% of their benefits at age 65, 70% at age 60, or 130% at age 70. Those waiting until after 70 are not entitled to more than the 30% increase. After age 65, a retirement pension can be drawn irrespective of any other source of income. After 70, no contributions are made to the plan.

Contributors receive the maximum retirement pension at age 65 provided they have made contributions each year at the maximum level over the contributory period. Also, spouses in an ongoing relationship who are both contributors may share their retirement pension payments if they are 60 or over. The shared portion depends on the time spouses have lived together during their contributory periods and cannot exceed 50%.

Disability pension

Individuals are considered disabled if they are unable to pursue any substantially gainful employment because of a physical or mental disability. A person applying for a disability pension must supply the Minister of Human Resources Development Canada (HRDC) with a medical report on the disability along with a statement of earnings, education, employment, occupation, and day-to-day activities. Under current rules, to qualify for disability benefits, a person must have contributed to the plan for at least four of the previous six years. The monthly disability pension is a fixed sum plus 75% of the contributor's retirement pension. If approved, the pension commences in the fourth month following the month in which the contributor is considered to have become disabled. Since these benefits are not pensionable earnings, recipients are not required to make C/QPP contributions.

The disability pension stops in the month in which the recipient is no longer considered disabled, or at age 65 (when the disability pension is replaced by a retirement pension), or the month of death.

Children of disabled contributors also receive a pension if the contributor qualifies.

Survivor benefits

Pensions are payable to surviving spouses and dependent children provided the deceased contributor had contributed for the minimum qualifying period—one-third of the time between age 18 and date of death (minimum of three years) or 10 years, whichever is less. A surviving spouse aged 65 and over who has not contributed to the plan is entitled to receive 60% of the deceased contributor's retirement pension. Between age 45 and 64, a fixed monthly sum plus 37.5% of the deceased contributor's retirement pension is paid. Under 45, benefits are further reduced by 1/120 for every month the spouse is less than 45. Under 35, with neither disability nor dependent children, surviving spouses are not entitled to benefits until they reach 65. If a surviving spouse is entitled to both a disability and survivor pension, the combined amount cannot exceed the maximum disability benefit. Benefits are not terminated on re-marriage.

Death benefits

This benefit is paid as a lump sum to a deceased contributor's spouse or estate. It amounts to six times the deceased contributor's monthly pension, to a maximum of $2,500.

Once benefits have been established, they are adjusted each January by the annual rate of inflation measured in terms of the increase in the consumer price index as of the previous September.

Under the Income Tax Act, C/QPP benefits received are taxable. Prior to 1988, contributions were tax deductible, but have since changed to a non-refundable tax credit of 17% of contributions.

Disability benefits are paid to participants who are unable to be gainfully employed because of a physical or mental disability, verified by a medical examination. Disability benefits combine a flat rate with 75% of the recipient's retirement benefit entitlements.

Survivor benefits are available to the spouses and dependent children[4] of deceased participants who contributed to the plan for at least 120 months. Benefits are based on the participant's accumulated entitlements and the characteristics of the survivors. Survivors can also apply for a one-time death benefit (maximum of $2,500 in 2003).

Benefits are not sent out automatically. A retiree or their spouse, survivor, beneficiary, or estate must apply to Human Resources Development Canada for CPP benefits or to the Régie des rentes du Québec for QPP benefits.

How do these benefit calculations translate into dollar values?

In July 2003, the maximum C/QPP benefits were $801.25 per month for retirees, $971.26/$971.23 for disability recipients, and $480.75 for survivors aged 65 and over.[5] However, these maximums apply only to participants who contributed the maximum premiums over the entire contributory period. Given varying contribution histories, benefit choices and demographic profiles, average benefit levels are somewhat lower, and differ between CPP and QPP recipients.

In July 2003, the average retirement benefit paid by the CPP was $448.21 (56% of the maximum) compared with an average disability benefit of $792.55 (82% of the maximum). The corresponding amounts from the QPP were $370.99 and $789.92—or 46% and 81% of the maximums (Table 1).

How many people are receiving benefits?

In July 2003, over four million people received $1.9 billion in benefits. Of these, 2.9 million received retirement benefits, 924,000 survivor benefits, and 287,000 disability benefits. Retirement benefits accounted for 71% of CPP payouts, survivor benefits for 14%, and disability for 12%.

The situation was similar for the QPP. The three main benefits accounted for 98% of the total: 70% for retirement, 20% for survivor, and 9% for disability. Of the 1.4 million beneficiaries, 1.0 million received retirement benefits and only 60,000 claimed disability benefits.

Table 1: Benefits paid under CPP and QPP, July 2003

	Canada Pension Plan				Quebec Pension Plan			
	Number*	Amount	Maximum	Average	Number*	Amount	Maximum	Average
		Million ($)	$	$		Million ($)	$	$
Retirement (at 65)	2,931,200	1,313.8	801.25	448.21	1,034,800	383.9	801.25	370.99
Disability	287,300	227.7	971.26	792.55	59,500	47.0	971.23	789.92
Survivor (spouses)	923,600	260.3	...	281.83	319,400	107.4	...	336.26
Under 65	230,400	75.4	444.96	327.26	83,800	46.4	700.06**	553.70
65 and over	693,200	184.9	480.75	266.73	235,600	61.0	480.75	258.91
Children of disabled contributors	94,400	21.4	186.71	226.69	7,400	0.6	59.28	81.08
Children of deceased contributors	90,200	18.1	186.71	200.67	19,700	1.2	59.28	60.91
Death	8,800	19.4	2,500.00	2,204.55	3,100	7.1	2,500.00	2,290.32
Total	**4,335,500**	**1,860.7**	...	429.18	**1,443,800**	**547.2**	...	379.00

Source: HRDC, Income security programs
** Some people may receive more than one benefit.*
*** If the survivor is aged 55 to 64 years, $670.76 if the survivor is 45 to 54.*

Administration of the CPP and QPP

The CPP is a separate account established by the Government of Canada. It records contributions, pensions and other benefits paid, interest income, and other administrative expenditures. The contributions are collected by the Canada Customs and Revenue Agency; benefits are determined and paid out on application to Human Resources Development Canada (HRDC). Any change in the rate of contribution, type and level of benefits, investment policy, or administration must be done through an act of Parliament. Changes require the agreement of at least two-thirds of the provinces representing at least two-thirds of the population.

As joint stewards of the CPP, the federal and provincial ministers of finance review the plan's financial situation every three years and make recommendations on changes to benefits or contributions. (They last met in December 2002.) Their decision is based on factors such as changing demographics, the economic situation, and the Chief Actuary's report on the financial soundness of the plan in the short, medium and long term. Under the legislation, this report is required every three years (in the year before the legislated ministerial review of the plan). The investment of unused annual contributions along with other accumulated investments are administered by the CPP Investment Board, created in 1998, which operates at arm's length from government.

The QPP is administered by the Régie des rentes du Québec, and its funds are managed by the Caisse de dépôt et placement du Québec, which operates independently from the Quebec government. The province of Quebec participates in all decisions affecting the CPP.

Dispute resolution

The CPP provides appeal procedures to resolve conflicts pertaining to both contributions and benefit claims. In the case of contributions, employees, employers or their representatives may appeal to the Minister of Revenue. If the Minister's decision is not acceptable, then within 90 days from the date of decision, a person can appeal to the Tax Court of Canada, whose decision is final and binding (subject to judicial review by the Federal Court). Similarly, beneficiaries or their representatives may file an appeal with the Minister of HRDC to review benefit claims. If the Minister's decision is not acceptable, it can be appealed within 90 days to the Office of the Commissioner of Review Tribunals. If this decision is not acceptable to either HRDC or the applicant, the appeal can be made to the Pension Appeals Board, whose decision is final (subject to judicial review by the Federal Court).

Are more people receiving benefits than in the past?

Yes. As the plan was phased in, recipient ranks grew rapidly. According to Human Resources Development Canada, 5.4 million persons received C/QPP benefits in 2001 compared with 1.8 million in 1981—a threefold increase over 20 years. Three-quarters of the net increase in recipients can be attributed to expanding numbers of seniors and higher rates of receipt.

According to the Survey of Labour and Income Dynamics, 3.4 million families, more than a quarter (27%) of the total, received benefits from the C/QPP in 2001. In 1981, just 1.3 million families received benefits (based on the Survey of Consumer Finances). Over the same period, total benefits paid by C/QPP jumped from $3 billion to $26 billion. On average, recipients in 2001 received $4,800—three times more than their counterparts in 1981 (unadjusted for inflation).

Table 2: Families with C/QPP benefits

	1981			2001		
	All families	Receiving C/QPP	Benefits	All families	Receiving C/QPP	Benefits
	'000		Millions ($)	'000		Millions ($)
Total	**9,132.3**	**1,327.0**	**2,668.9**	**12,601.9**	**3,383.9**	**23,921.1**
			%			
Age of major income recipient	100.0	14.5	100.0	100.0	26.9	100.0
Under 55	69.0	3.0	13.1	63.4	3.3	6.1
55 to 64	14.0	13.1	13.6	14.8	33.2	16.7
65 and over	17.0	62.4	73.2	21.8	91.1	77.2

Sources: Survey of Consumer Finances, 1982; Survey of Labour and Income Dynamics, 2002

Do C/QPP benefits constitute a larger part of family income than in the past?

Yes. C/QPP benefits accounted for 16% of family income in 2001 compared with 10% in 1981, even as average income of recipient families grew by 17%. (Table 2).[6]

Over the same 20-year period, mean real income of the elderly with C/QPP benefits rose 22%—from $35,700 to $43,600. C/QPP benefits contributed 17 cents to each dollar of income in 2001 compared with 11 cents in 1981.

Moreover, the gap between incomes of the elderly and of families with a major income recipient under 55 years narrowed considerably—from 32% in 1981 to 11% by 2001 (Table 3).

The influence on family incomes should continue to grow as more participants retire with full or nearly full benefits and the number of beneficiaries per family climbs as a result of the increased participation of women in the labour force.

Do C/QPP benefits help keep families out of low income?

Yes. In 1981, 42% of all recipient families would have fallen into low income if not for their C/QPP benefits. By 2001, this proportion of vulnerability reached 85%.

Among elderly families, fewer with C/QPP benefits had low incomes than those without benefits. However, non-elderly families with C/QPP benefits had a greater incidence of low income.

Is there a relationship between the C/QPP and Old Age Security?

No. The Old Age Security (OAS)[7] program predates the C/QPP and is the other main government transfer to senior families. Unlike C/QPP retirement benefits, OAS payments are based on residency rather than past contributions. Another difference is that OAS payments can be reduced ('clawed back') at higher income levels, whereas other sources of income do not affect C/QPP retirement benefits. As more senior families have become eligible and the average retirement benefit has increased, the C/QPP has become the larger source of income.

In both 1981 and 2001, these two programs provided the lion's share of government transfer payments to senior families, at 92% and 91% respectively (Table 4). In 1981, OAS was the more important, accounting for 62% of transfers compared with 30% from the C/QPP. Twenty years later, the C/QPP share had jumped to 43% while OAS had dropped to 48%.

Table 3: Average income and C/QPP benefits received by families by age of major income recipient

	No C/QPP			Receiving C/QPP				
							C/QPP benefits	
	Total	In low income	Average income	Total	In low income	Average income	Average	Share
	'000		2001 $	'000		2001 $		%
1981								
Families	**7,805.3**	**1,554.8**		**1,327.0**	**376.7**			
	%			%				
All ages	100.0	19.9	53,700	100.0	28.4	38,500	4,000	10.3
Under 55	78.3	16.3	55,900	14.3	23.9	52,500	3,600	6.9
55 to 64	14.2	17.3	57,600	12.7	29.0	38,800	4,300	11.0
65 and over	7.5	62.6	23,000	73.0	29.1	35,700	4,000	11.2
	'000			'000				
2001								
Families	**9,218.0**	**1,757.1**		**3,383.9**	**662.5**			
	%			%				
All ages	100.0	19.1	61,900	100.0	19.6	45,000	7,100	15.7
Under 55	83.9	18.2	61,400	7.8	29.5	48,900	5,500	11.3
55 to 64	13.5	17.8	69,700	18.3	22.0	49,000	6,400	13.2
65 and over	2.6	53.3	38,300	73.9	17.9	43,600	7,400	16.9

Sources: Survey of Consumer Finances, 1982; Survey of Labour and Income Dynamics, 2002

Table 4: Government transfers and role of C/QPP and OAS benefits by age of major income recipient

	No C/QPP				Receiving C/QPP				
			Composition				Composition		
	Average transfers	Share of family income	Old Age Security	Other*	Average transfers	Share of family income	Old Age Security	C/QPP	Other**
	2001 $		%		2001 $		%		
1981	3,300	6.1	23.1	76.9	12,000	31.2	53.0	33.0	14.0
Under 55	2,600	4.7	2.7	97.3	8,700	16.5	15.2	41.8	43.0
55 to 64	3,000	5.3	8.6	91.4	8,300	21.4	14.9	51.6	33.5
65 and over	10,100	44.1	87.0	13.0	13,300	37.3	62.0	29.9	8.1
2001	3,200	5.2	7.1	92.9	15,100	33.5	40.1	46.9	13.0
Under 55	3,000	4.9	0.0	100.0	9,900	20.2	0.3	56.1	43.6
55 to 64	3,000	4.2	1.6	98.4	9,400	19.2	1.9	68.7	29.4
65 and over	12,100	31.5	70.2	29.8	17,000	39.1	47.7	43.3	9.0

Sources: Survey of Consumer Finances, 1982; Survey of Labour and Income Dynamics, 2002
* *Total government transfers (see* Data sources and definitions*) less OAS/GIS/SA benefits.*
** *Total government transfers (see* Data sources and definitions*) less OAS/GIS/SA and C/QPP benefits.*

Data sources and definitions

HRDC's *The ISP Stats Book* 2003, and the *2001/2002 Annual Report of the CPP*; Canada Customs and Revenue Agency statistics for the calendar year 2001; Statistics Canada's CANSIM database.

The 1982 **Survey of Consumer Finances** (SCF) for 1981 income, and the 2002 **Survey of Labour and Income Dynamics** (SLID) for 2001 income. The survey estimates of C/QPP benefits compared well with the administrative data—85.1% for the 1982 SCF compared with 91.7% for the 2002 SLID. The higher reconciliation with SLID is largely due to the authorized matching of respondents' tax records compared with personal interviews in the SCF. Estimates from the surveys are subject to sampling and non-sampling errors.

Yearly maximum pensionable earnings (YMPE): Approximates the average Canadian wage based on Statistics Canada's industrial aggregate wage.

Yearly basic exemption (YBE): roughly 10% of the YMPE. Since 1996, its value has been fixed at $3,500.

Yearly maximum contributory earnings (YMCE): Equals (YMPE – YBE). The rate of C/QPP contribution is applied to these earnings in order to calculate a person's annual contribution.

Family refers to economic families and unattached individuals. An economic family is a group of persons sharing a common dwelling and related by blood, marriage (including common law) or adoption. An unattached individual lives alone or with unrelated persons.

An elderly family is one with a major income recipient aged 65 or over.

Spouses include common-law and same-sex partners.

Major income recipient: the person in the family with the highest income before tax. If two persons have exactly the same income, the older one is considered the major income recipient. The concept of major income recipient was used for the 2001 income data from the Survey of Labour and Income Dynamics (SLID). For 1981 income data from the Survey of Consumer Finances (SCF), the age of the family head was used. The husband was treated as the head in husband-wife families, and the parent in lone-parent families. The two concepts are not identical but similar enough not to distort any comparison of family income between 2001 and 1981.

Pre-tax family income: Sum of incomes received from all sources by family members, aged 16 and over for SLID, and 15 and over for SCF, over a calendar year. Sources include wages and salaries, net income from farm and non-farm self-employment, investment income (interest earned, dividends, net rental income, etc), government transfers, retirement pension income, and alimony. Excluded are income in kind, tax refunds, and inheritances.

Government transfers: All direct payments from federal, provincial and municipal governments to individuals or families. These include child tax benefits, Old Age Security, Guaranteed Income Supplement (GIS), Spouse's Allowance (SA), C/QPP benefits, Employment Insurance benefits, social assistance, workers' compensation benefits, GST and provincial tax credits, and other government transfers.

Low-income family: Families are classified using the pre-tax, low-income cutoffs for 1981 and 2001 (1992 base), published by Statistics Canada. For more details, see *Income in Canada, 2001* (Catalogue no. 75-202-XIE).

Benefit formulas

Retirement: 25% of a worker's average monthly adjusted pensionable earnings, or

$(TPE_t/TNMC) \cdot 0.25$ where TPE_t is total pensionable earnings in year t, and

TNMC is the total number of months of contributions (minimum 120).

$$TPE_t = \frac{AYMPE_t \cdot YMPE_t \cdot NMC_t}{12 \cdot YMPE_t}$$

where $YMPE_t$ is yearly maximum pensionable earnings in year t, NMC_t is number of months of contributions by year t, and

$$AYMPE_t = \frac{YMPE_t + YMPE_{t-1} + YMPE_{t-2} + YMPE_{t-3} + YMPE_{t-4}}{5}$$

is 5-year average of YMPE in year t.

The concept of using a five-year average of YMPE was introduced in 1999; a four-year average was used in 1998 and a three-year average prior to 1998.

Disability: (Retirement•0.75) + disability flat rate.

Survivor aged less than 65: (Retirement•0.375) + survivor flat rate.

Survivor aged 65 or over: (Retirement•0.60).

Death: (YMPE•0.10), limited to $2,500.

Combined survivor/disability: (AYMPE•0.25)/12 + disability flat rate up to the amount of disability.

Combined retirement/survivor: (AYMPE•0.25)/12.

In 2002, the disability flat rate was almost the same under both the CPP and QPP—$364.49 and $364.46 respectively. However, the survivor flat rates and benefits for children varied between the two plans.

Source: HRDC, The ISP Stats Book 2003.

Even among senior families not receiving C/QPP benefits, OAS payments represented a declining proportion of both income and transfers. In 1981, such families received 44% of their income in transfers, and 87% of these transfers were simply the OAS benefits. Twenty years later, they were receiving 32% in transfers with 70% being OAS benefits.

Summary

- The Canada and Quebec Pension Plans are mandatory for nearly all workers.
- The plans provide pension and disability benefits to participants, and survivor and death benefits to their families.
- The C/QPP is funded by employee and employer contributions and investment income on the accumulated annual surpluses. A change to steady-state financing ensures the long-term actuarial stability of the plans and increases intergenerational equity.
- Contribution rates have increased to support the fiscal position of the plans, from 1.8% of maximum pensionable earnings in 1986 to the 2003 level of 4.95%. This rate is paid by both employees and employers, so the self-employed pay a rate of 9.9%.
- In July 2003, the maximum retirement benefit was $801.25. The average, however, was much lower: $448.21 for the CPP and $370.99 for the QPP.
- In 2001, 91.1% of elderly families received C/QPP benefits, averaging one-sixth of their total income.
- C/QPP payments have been growing in importance relative to the other main transfer to elderly families—Old Age Security.

Perspectives

Notes

1 Besides C/QPP retirement benefits, Canadians draw income from the publicly funded Old Age Security program, employer pension plans, RRSPs, annuities, earnings, personal savings, and other social assistance. Income in kind and the imputed value of owner-occupied homes are excluded.

2 Canada's population is aging. In 2002, those 60 and over accounted for 17.0% of a population of 31.4 million, compared with 11.6% of the 22 million in 1971. As a result, the number of contributors to the C/QPP is likely to fall whereas the number of recipients will rise, resulting in a lower contributor/recipient ratio. In 2001, there were 342 recipients for every 1,000 contributors, compared with 122 in 1981.

In recessionary periods, the relatively higher rate of unemployment coupled with stagnant earnings may adversely affect C/QPP revenues but not expenditures (assuming that the recession does not encourage some to retire).

Persons claiming CPP disability benefits increased from 90,522 in 1981 to a peak of 298,966 in 1996, dropping to 281,263 by 2002; QPP numbers for the same years showed a steady increase—22,037; 47,460; and 57,041.

3 Provinces have the option to renew maturing bonds for one term at market rates.

4 Dependent children fall into two categories: under 18 years of age, or 18 to 25 and attending college or university full time.

5 In 2001, the maximum monthly retirement benefit from the C/QPP was $775, or $9,300 a year, which in turn was less than the 1992-base low-income cutoff, which ranged from $10,201 for an unattached individual in a rural area to $15,559 for someone in an urban area with a population of 500,000 or more.

6 The focus in this section is a family, including unattached individuals, since family income is a better measure of a family's economic well-being. Since unattached individuals could form a family over time and vice-versa, the analysis in this part is based using family as a unit (including unattached individuals).

7 The OAS program provides a flat rate pension to Canadians aged 65 years and over. The amount depends on the recipient's age and years of residency in Canada (minimum 10). Full benefits are paid after 40 years of residency. Although the basic pension is paid to all those eligible, it can be clawed back, depending on income, when the income tax return is filed. In 2002, those with incomes up to $57,879 kept the full benefits; those between $57,880 and $92,434, partial; and those with $92,435 and over, none. OAS benefits are adjusted quarterly by the change in the consumer price index (CPI). In the calendar year 2002, the average monthly OAS payment was $431.62. OAS benefits are taxable.

Under the Old Age Security Act, a recipient of OAS benefits may receive a Guaranteed Income Supplement (GIS), depending on source and amount of income. This supplement is also adjusted quarterly by the change in the CPI. The average monthly GIS payment in 2002 was $321.56. Also pensioners' spouses and widowed persons aged 60 to 64 who have lived in Canada for a minimum of 10 years after age 18, and who qualify after an income test, are eligible to receive a monthly Spouse's Allowance or Widowed Spouse's Allowance. Its average monthly payment was $360.54. For more details on these programs, see CCH (1999) or HRDC (2003).

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