THE GLOBE AND MAIL

Finance Minister Jim Flaherty, left, and Bank of Canada Governor Mark Carney wait for the start of a meeting with provincial and territorial finance ministers at Meech Lake in Quebec on Dec. 17, 2012.
REUTERS

CPP reform: Who wins, who loses

KEVIN MILLIGAN
Published Tuesday, Dec. 18, 2012 07:26AM EST
Last updated Tuesday, Dec. 18, 2012 08:49AM EST

Monday's meeting of Canada's finance ministers at Meech Lake has reinvigorated debate on enlargement of the Canada Pension Plan. The idea of a bigger CPP has support from diverse groups ranging from senior citizens' organizations, to labour unions, to pension experts.

Some reasons to support an increase in the CPP are clear: the CPP is a low-cost, portable, secure, and stable pension. Moreover, the great advancements in the wellbeing of Canadian elderly over the past 40 years result largely from improvements to public pensions through the CPP and the Guaranteed Income Supplement. Should we build on these policy successes by constructing a bigger CPP?

While a bigger CPP has some clear benefits, I still have two reservations that I'd like to work through before signing up for 'Team Big CPP'.

First, I want to be convinced that the CPP is the right tool to fix the problems we face.

Recent reviews of the Canadian retirement income system by Jack Mintz and Bob Baldwin have concluded that the public system already in place does well in ensuring sufficient retirement income for those in the bottom two-fifths of the population. Research by Statistics Canada indicates that more than two-thirds of lower-earning Canadians have more income in retirement than they did at age 50. The pension problem, such that it is, can be found among those in the top three-fifths of the population who do not receive benefits from an employer-sponsored pension plan.

The CPP affects almost everybody. The pension problem identified by these recent pension reviews is one that affects middle-to-high earners without a workplace pension. This presents a fairly obvious mismatch. Is a bigger CPP really the solution for high earners who aren't saving enough? Should we invest a lot of public policy effort to ensure that high earners can spend their retirement days in Florence instead of Florida? I still need to be convinced that a more targeted solution wouldn't be more appropriate.

The consequence of a 'one size fits all' bigger CPP is more payroll contributions and less current disposable earnings for the majority of Canadians who are currently doing well with the existing system. For example, lower-earning Canadians are already well-served by the existing public system -- why should they be forced to consume less now, when they are struggling in the present more than they will be in retirement. (Recalling that two-thirds of lower income Canadians make more in retirement than they did in their 50s.) Why force more savings on these Canadians when they'd be better off with the money now?

My second concern about a bigger CPP is further concentration of economic power in the Canada Pension Plan Investment Board. The CPPIB has $170-billion of assets under management and is already the biggest pension fund manager in Canada. In 10 years the CPPIB is projected to have more than $300-billion under management. From all accounts the CPPIB manages this money well on behalf of CPP members -- but it is becoming a behemoth.

An enlarged CPP would enhance the position of the CPPIB through two channels. First, higher payroll tax rates mean more will be sent to be managed by the CPPIB to fund the expanded future benefits. Second, many existing employer-sponsored plans are likely to 'carve out' the newly enlarged CPP from their pension structure, meaning that these pension plans will shrink as the CPP enlarges. Teachers and OMERS will be smaller; the CPPIB larger. The result will be a CPPIB that towers very far above any other asset fund in Canada. There are some obvious political and economic risks to such concentration. Are we sure we want to do this? The CPPIB may be a very fine basket, but I'm not sure all eggs should reside within even the finest of solitary hampers.

An enlarged CPP is not the only option for progress. In the 2011 election, the Liberals offered a 'Secure Retirement Option' with voluntary contributions to be managed by the CPPIB. NDP leader Tom Mulcair proposed voluntary accounts through a 'pension exchange' to be organized by the CPPIB, with the CPPIB providing a 'public option' to compete with other options on the exchange. The Conservative government continues development of the voluntary Pooled Registered Pension Plans -- including draft regulations issued this fall. Commentator Andrew Coyne likes individual accounts too, but prefers them to be mandatory. All of these options have merits and challenges.

Back at Meech Lake, the finance ministers' meeting concluded by deferring any decisions until June, 2013. Over the next six months, Canadians have some thinking to do about the future of our pension system.

Kevin Milligan is associate professor at the Vancouver School of Economics at UBC

Follow Economy Lab on Twitter
