



Canada's Retirement Income System

Briefing to the Delegation of Finance Ministers from Brazilian States

Canada's government-supported Retirement Income System has three pillars

Pillar #1	Pillar #2	Pillar #3
Old Age Security/ Guaranteed Income Supplement (OAS/GIS)	Canada/Québec Pension Plans (C/QPP)	Registered Pension Plans (RPP) Registered Retirement Savings Plans (RRSP)
Universal	Mandatory for all workers	Voluntary
Funded from general revenues	Funded from employee and employer contributions	Funded from employee and/or employer contributions
Exclusively federal	Joint federal-provincial Stewardship	Federal and provincial govts provide tax assistance and regulate RPPs

Canadians also have other potential sources of retirement income, such as owner-occupied housing, business equity, Tax-Free Savings Accounts and other private savings.

First Pillar: OAS/GIS ensures a basic minimum income for virtually all seniors

The OAS provides a monthly pension to seniors regardless of work history

- **Age of eligibility is 65**
- **Based on residence in Canada**
- **Not reduced until a fairly high income threshold – therefore, nearly universal**

The GIS provides additional benefits to low-income seniors who receive OAS

- **Age of eligibility is 65 (though some benefits available at age 60)**
- **Based on family income**
- **Recent Budget enhancement provided top-up for the most vulnerable low income seniors**

OAS and GIS are financed from Government of Canada general revenues.

Provinces/territories are responsible for providing income support (social assistance) to low income Canadians under age 65. Some provinces also provide GIS-type top-ups to low income seniors.

Second Pillar: CPP/QPP provide basic income replacement to workers

The CPP is a mandatory, public pension plan for workers throughout Canada, except Quebec where the Quebec Pension Plan (QPP) provides similar benefits

Replaces 25% of earnings up to a limit (average industrial wage)

Self-financed by contributions from workers and employers

- Contribution rate is 9.9 percent of earnings between a basic exemption (\$3,500) and the average industrial wage (\$48,300 in 2011)**
- Shared equally by employees and employers. Self-employed pay both shares**

Normal age of eligibility is 65 though actuarially adjusted benefits available between ages 60 and 70

Third Pillar: RPPs and RRSPs/RRIFs provide tax-assisted private retirement savings for workers

RPPs

Generally sponsored by an employer for employees

Federal regulation for federal sectors – only about 7 percent of RPPs

Provinces regulate the rest

RRSPs

Individual savings plans

A group RRSP may also be offered by an employer

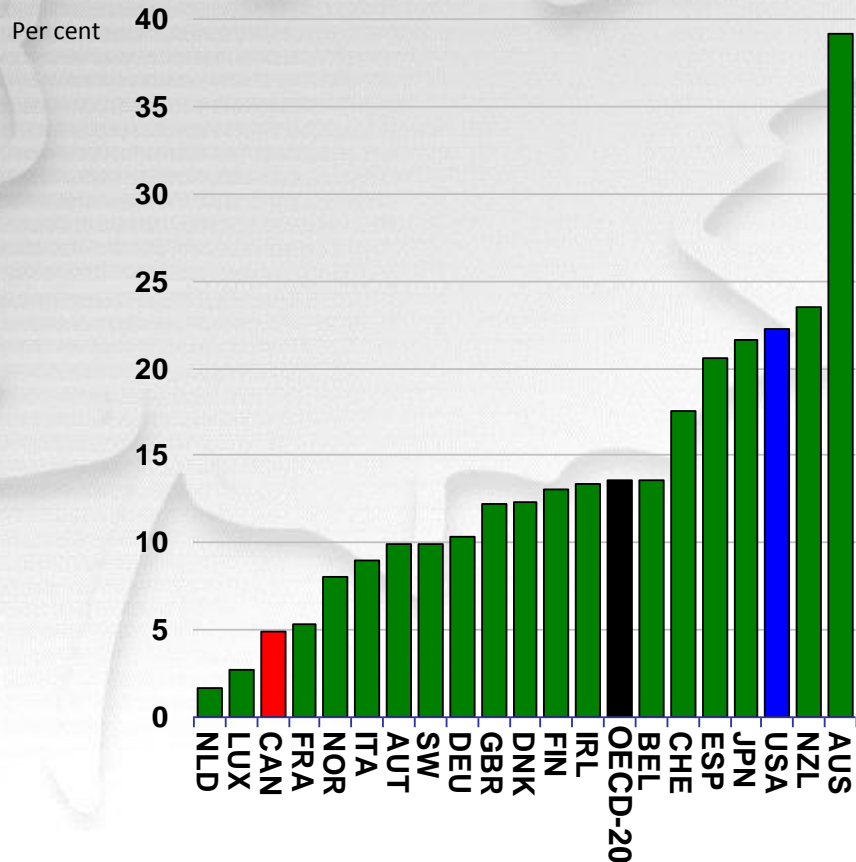
Contribution and benefit limits

Designed to permit most Canadians to save enough, over a 35-year career, to obtain a retirement income up to 70 per cent of pre-retirement earnings

Limits are in addition to earnings replacement provided by OAS and CPP

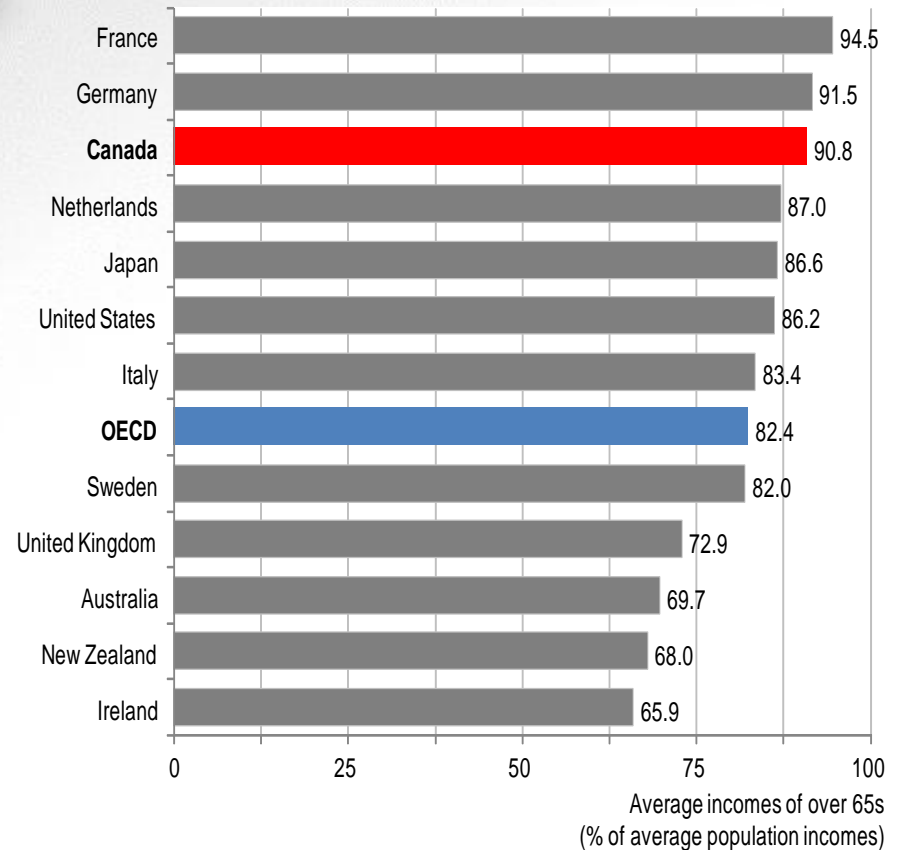
Canadian retirement income system has been effective in reducing poverty and low income of seniors and compares well to other OECD countries

Share of seniors living in low-income families, Canada and selected OECD countries, late 2000s



Source: OECD Income Distribution and Poverty Database

Average Incomes of Seniors as a Percentage of Average Incomes of General Population



Source: Presentation by Dr. Edward Whitehouse, OECD

Canada's retirement income system is financially sustainable

OAS expenditures are expected to increase, given aging of the population

- As a percentage of GDP, OAS expenditures will grow from 2.3% in 2010 to 3.1% in 2030, before declining gradually to 2.6% by 2050

Latest Actuarial Report confirmed that CPP is sustainable over the long-term at the current contribution rate and benefit structure

Federal expenditures on RPPs, RRSPs and RRIFs limited to tax assistance

Governments have considered question of retirement income adequacy

Significant research, public consultation and discussion with provinces and territories.

Research confirmed that, overall, retirement income system performing well but that a portion of modest and middle-income Canadians may not be saving sufficiently

To address issue of adequacy, Government has made decision to move ahead with implementation of Pooled Registered Pension Plans (PRPPs)

PRPPs will be pension plans that will be delivered by financial institutions. Will give the self-employed and the employees whose employers don't sponsor pension plans the opportunity to participate in a low-cost retirement savings option.