



Canada Pension
Plan-
Considerations for
Albertans

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ESNA Policy Pints
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Agenda

Features of CPP

1997 Reforms to CPP

CPP Enhancement

CPP Snapshot 2023


CPP's Current Standing

Alberta Pension Plan

Salient Features of CPP

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- Started on January 1, 1966
 - Covers all Canadian Workers outside Quebec, including Self Employed,
 - Covers Earnings to Average Industrial Wage (AIW)
 - Employees and Employers contribute equally
 - Pays a pension of 25% of earnings to AIW average
 - Has benefits for Disabled Workers, Surviving Spouses and Orphans
 - Benefits Fully Indexed to Inflation

1997 Reforms to CPP

- Contributions gradually increased to 9.9% of earnings
 - An independent Board (CPPIB) created to invest surplus CPP Funds
 - CPPIB membership chosen jointly by federal and provincial governments
 - Actuarial Valuations done by the Chief Actuary every 3 years and reviewed by outside, independent actuaries
 - New “Fail Safe” clauses introduced to keep the Plan properly funded in case governments fail to act in a timely manner
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CPP Enhancement, 2019- 2023 (First Enhancement) and 2024 – 2025 (Second Enhancement)

Gradually increase contributions for each of employees and employers by 1% over 5 years from 2019 to 2023

Increase Salary subject to CPP coverage by 14% over the years 2024 and 2025, estimated at \$81,100 in 2025

Expected to increase the combined CPP pension from both components by 50% for employees who participate in the Enhanced Components for 40 years

Enhancement Components fully funded like a standard employer sponsored plan and they will start to pay gradually higher amounts as employees contribute to it longer.

CPP Snapshot 2023

Basic Plan Contribution Rate: 4.95% of earnings up to AIW (\$66,600) for Employees and Employers each

First Additional Component Contribution Rate: 1% for Employers and Employees each

Maximum Pension for new pensioners: \$ 15,684 per annum

Average Pension for New Pensioners: \$8,604 per annum

CPPIB Assets \$575 Billion (June 30, 2023)

CPPIB Average 10 Year Annual ROI: 10.1%

CPP's Current Standing



58 years' experience under its belt



Sterling Reputation among its International Peers



Solid Financial Foundation and Sound Governance Structure



Every Participating Canadian contributes and receives benefits on the same basis and enjoys the same benefit security



Requires 2/3 of Provinces with 2/3 of Population to make changes to the Plan. Not subject to a single province's whims.

CPP's Current Standing (cont'd)

- Administration uses CRA's facilities towards administration
- built a robust Administration and Communication systems over the last 57 years
- No political or other Scandals
- Built in Mechanism to bring benefits in line if politicians fail to increase contributions as required
- To enhance the credibility of Actuarial Reports, United Kingdom's Actuarial Department selects the independent actuaries who perform peer review of CPP's Actuarial Valuation and provides an opinion on the work done by reviewers



Alberta Pension Plan



Given our lower average age, a contribution rate reduction is possible. Amount of Funds transferred to Alberta will have a critical impact on the possible reduction.



Alberta Government's report estimates the transfer amount at 53% of the CPP Funds (Est. \$334 billion- 2027). If Ontario's share was similarly calculated, CPP Fund would not have enough to pay both Alberta and Ontario, never mind other provinces.



Prof. Trevor Tombe of the University of Calgary considers \$ 120 billion a more realistic number.

Alberta Pension Plan (cont'd)



Contribution rates are highly sensitive to changes in Investment Returns, Fertility Rates, Immigration Rates and minor changes in these can have a large impact on the future of APP. Even Alberta Government's report acknowledges that in the long run Alberta's rates will be similar to those of rest of Canada



Alberta's economy is much smaller and narrowly based than Canada's. It is more dependent on volatile commodity prices and hence subject to large swings periodically.



A pension plan, like an insurance plan, based on a smaller participant base is inherently riskier.



APP will be under the full control of Alberta Government while CPP is not.



The decision to leave CPP is irreversible

