

▶ **The Canadian Pension System**

How does it achieves the ILO core principles on social protection?

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▶ **Tripartite Round Table on Pension Trends and Reforms** (30 November – 2 December and 4 December 2020)

13 countries from 5 regions

- ▶ Africa: Côte d'Ivoire, Nigeria, Tunisia
- ▶ Americas: Argentina, Canada, Chile, Mexico
- ▶ Arab States: Jordan
- ▶ Asia: China, Indonesia
- ▶ Europe: Bulgaria, France, Russian Federation

The Record of proceedings (Meeting Report) is available on the ILO Website

<https://www.social-protection.org/gimi/RessourcePDF.action?id=57253>

▶ **Tripartite Round Table on Pension Trends and Reforms**

(30 November – 2 December and 4 December 2020)

Objectives

- ▶ Share global trends on pension reforms and learn from country experiences in designing, extending and reforming their pension systems;
- ▶ Discuss policy and reform options in the light of the ILO core principles and minimum benchmarks
- ▶ Share main takeaway messages prepared by the Employers' group, the Workers' group and the Governments' group

A questionnaire was prepared structured around a set of 9 core principles for pension systems derived from ILO social security standards.

Objective of the questionnaire was to serve as the basis for the country presentations and reflections on pension systems' achievement of the guiding principles.

▶ 9 core principles for pension systems

- ▶ 1: Progressive realization of universal coverage
- ▶ 2: Social solidarity and collective financing
- ▶ 3: Right to adequate and predictable benefits
- ▶ 4: Overall and primary responsibility of the State
- ▶ 5: Non-discrimination, gender equality and responsiveness to special needs
- ▶ 6: Financial, fiscal and economic sustainability
- ▶ 7: Transparent management and administration
- ▶ 8: Involvement of social partners and consultations with other stakeholders
- ▶ 9: Periodic review of pensions to match the evolution of the cost of living and level of earnings

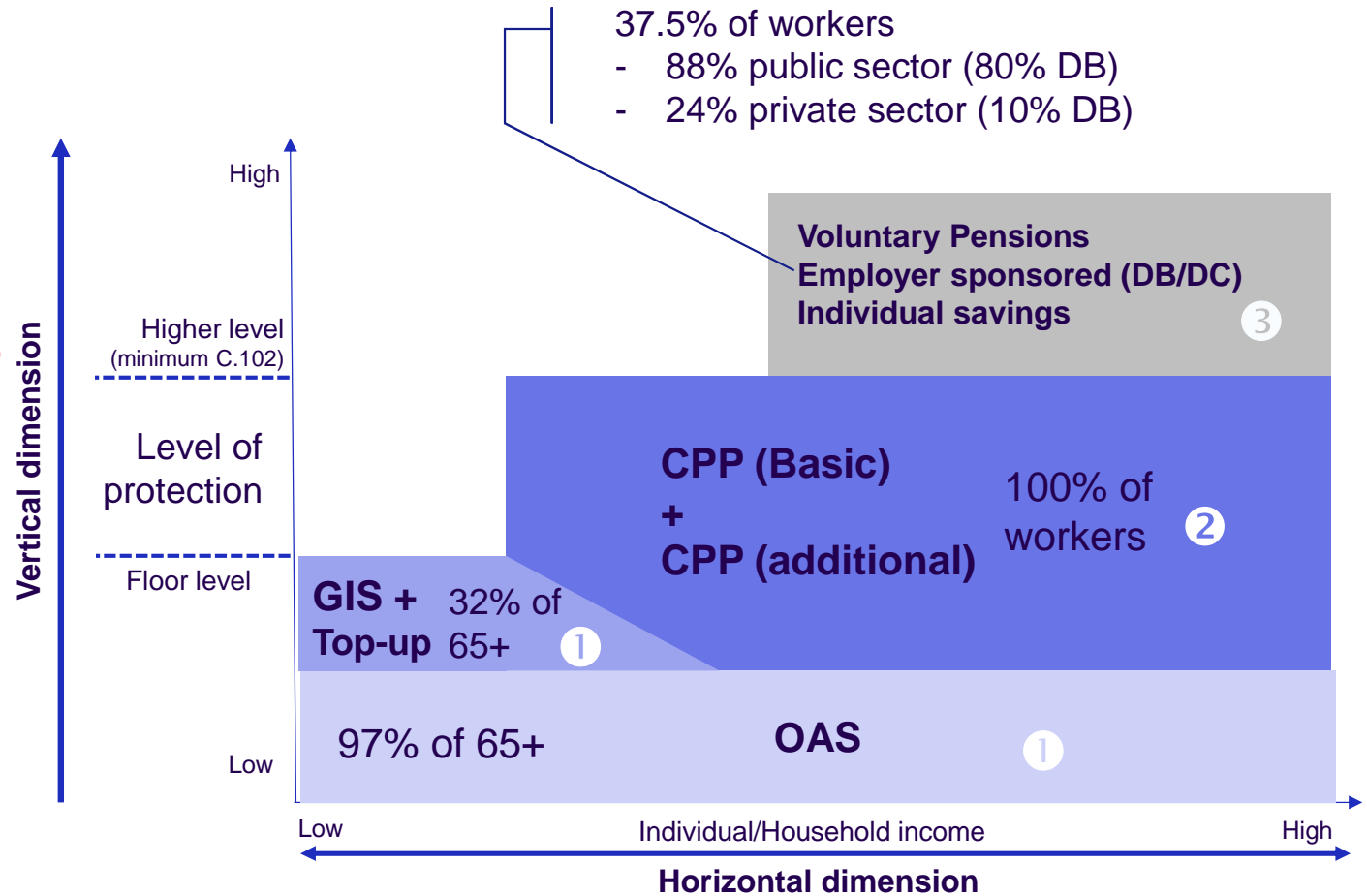
The Canadian multi-pillars pension system



Financing:

- ▶ Tax finance – Pay-As-You-Go ①
- ▶ Contributory – Partially funded* ②
- ▶ Contributory – Fully funded ③

* Basic CPP: partially
Additional CPP: fully



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► Achievement of ILO Principles: Government's assessment



- Believe the system fully or mostly achieves principles 1 to 7 and 9
 - 1 – 97% of Canadian seniors receive the OAS pension and 100% of workers are covered by CPP
 - 2 – OAS is tax financed. CPP is collectively financed by employers and workers and include some redistributive provisions (periods of disability, child rearing, low or zero earnings)
 - 3 – OAS replaces 13% of national average wage. Income-tested supplement can increase the replacement rate of low-income seniors to over 100%. CPP replace 25% that will gradually increase to 33%. Poverty rate of seniors (5.4%) is lower than for the general population
 - 4 – Responsibilities shared between the federal and provinces
 - 5 – Equality of treatment is ensured under the provision of the OAS and CPP
 - 6 – Both OAS program and CPP are fiscally and financially sustainable
 - 7 – All reports prepared by the Office of the Chief Actuary and the CPP Investment Board are public
 - 9 – Benefits paid by OAS program and CPP are adjusted to CPI

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► Achievement of ILO Principles: Government's assessment



- Believe the system only partially achieves principle 8
 - 8 – Consultation with trade unions, interest groups and individuals are limited. These groups are provided the opportunity to voice their concerns to parliamentarians regarding substantial changes to the OAS program or CPP during the legislative approval process

- What could be done to strengthen the pension system?
 - System depends heavily on private savings to generate the retirement income of most Canadians
 - Over the years, general erosion of employer-sponsored pension plans and insufficient retirement savings
 - Enhance employers' pension and private savings
 - Make sure that all seniors receive the benefits to which they are entitled
 - Strengthening financial literacy to help Canadians make informed decision about their retirement

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► Achievement of ILO Principles: Workers' assessment



- Believe the system fully or mostly achieves principles 1 to 6
 - First two pillars of the system provide nearly universal coverage, predictable benefits and basic protection against poverty
 - Pillars 1 and 2 are financed collectively and “solidaristically”, albeit at a comparatively low level
 - Fiscally sustainable over the long run
 - State has clear primary and overall responsibility for Pillars 1 and 2
 - Benefits recognize and partially respond to discrimination and special needs

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► Achievement of ILO Principles: Workers' assessment



- Believe the system does not achieve or only partially achieves principles 7 to 9
 - 7- 8: government would benefit from working more closely with the social partners, especially CPP
 - ✓ Particularly the case with respect to indexation mechanisms and realities of workers in non-standard forms of work
 - Most important deficiency is the 3rd pillar. Does not allow Canadians to save enough to reach needed level of savings, especially those with earnings between half and twice the average wage. Most important cause limiting the coverage and sufficiency of contributions
 - ✓ 3rd pillar plans are not mandatory. Growing gap between public and private sector coverage is eroding social solidarity. For workers with a workplace pension plan, benefits are increasingly inadequate and unpredictable
 - ✓ Government encourages retirement savings with tax incentives and not direct contributions. Benefits disproportionately to higher income and wealthy Canadians. A method where the government would pay a matching contribution would be more favorable for middle-class employees
 - ✓ Inadequate for workers in small companies and workers in non-standard forms of work

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► Achievement of ILO Principles: Workers' assessment



- What could be done to strengthen the pension system?
 - Better index Pillar 1 benefits to reflect, partially or fully, the growth of average wages
 - Increase transparency, accountability and participation of the social partners in the administration and oversight of Pillars 1 and 2
 - Address Pillar 3 weaknesses by further enhancing Pillar 2 pension or making employers and employees participation and contributions in workplace pension plans mandatory
 - Government of Canada should ratify ILO Convention No. 102 (Social Security (Minimum Standards)) and ILO Convention No. 128 (Invalidity, Old Age and Survivors' Benefits)

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► Achievement of ILO Principles: Employers' assessment



- Believe the system fully or mostly achieves all the 9 principles with the same explanations than those provided by the government, with some additions
 - 3 – According to academic studies, 84% of Canadian households were prepared for retirement; the average preparation index is 117% (which means that households would replace 117% of their pre-retirement consumption)
 - 4 - The pension system is well diversified and involves also an important private sector pillar
 - 6 – High level of public debt might represent a risk on fiscal sustainability of the OAS program eventually

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► Achievement of ILO Principles: Employers' assessment



► What could be done to strengthen the pension system?

- Develop attractive retirement savings products for those without employment-based scheme
- Increase the level of household savings and reduce household debt
- Promote labour market participation at older ages to reflect longer life expectancy. Ensure that interaction of benefits and taxation do not create disincentives to work or save (revising for instance the existing GIS clawback)
- Do not believe that further mandating employer contributions to retirement savings is appropriate or feasible. Instead, create conditions so that employers are able to establish plans for their employees
- Promoting financial education and literacy on the importance of retirement savings
- Improving outcomes for those in capital accumulation plans by addressing fees, portability, decumulation solutions and innovation on protecting for longevity

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► Achievement of ILO Principles: Employers' assessment



- What could be done to strengthen the pension system?
 - Looking at additional ways to improve the OAS and CPP like deferring the commencement of benefits up to age 75 with appropriate increase in pension
 - Putting in place conditions and regulations for innovative pension plans like risk-sharing and target benefit plans

▶ **Thank you!**

