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NEWS RELEASE

More than modest tinkering needed to reform CPP/QPP

Study presents options for increased benefits, faster phase-in, later retirement and greater equity

Montreal – As Canada’s finance ministers prepare to consider options for a “modest” expansion of the Canada and Quebec Pension Plans (CPP/QPP), a new study from the Institute for Research on Public Policy (IRPP) makes the case that unless policy-makers are willing to think “outside the box,” these reforms will be of little help to the next wave of retirees.

In the study, [*Not-So-Modest Options for Expanding the CPP/QPP*](#), the former assistant chief statistician with Statistics Canada, Michael Wolfson, examines the impact of various options for CPP/QPP expansion. He finds that current proposals, which assume that any future benefit enhancement must be fully funded and, as such, would be phased in over a period of nearly half a century, will not address the projected gaps in retirement income.

“Approximately half of middle-income earners aged over 40 today are expected to see a significant decline in their standard of living upon retirement,” notes Wolfson. “A half-century solution won’t help them that much.”

Using Statistics Canada’s Lifepaths microsimulation model, Wolfson develops and assesses several options to improve the effectiveness of CPP/QPP reforms. What is needed, he argues, is a “grand bargain.”

Wolfson finds that if the age of eligibility for the CPP/QPP enhancement was raised to between 68 and 70, it would be possible to

- phase in new benefits more than twice as fast (over 20 years);
- maintain a solvent pension fund with stable contribution rates over the long term; and
- adjust benefits to compensate for shorter-than-average life expectancy among lower income earners.

“These reforms would go a long way in securing the retirement income prospects of a large cross-section of Canadians,” he said. Wolfson’s proposal would double the year’s maximum pensionable earnings from \$51,100 to \$102,200, and it would increase the income replacement rate from 25 to 40 percent on earnings above \$25,550. It would reduce by one-quarter the proportion of middle-income earners now facing a significant decline in their postretirement standard of living.

More broadly, his proposed reforms would encourage workers to remain in the labour force longer, provide greater equity between income groups and contribute to higher levels of future consumption. “The options in this analysis provide crucial evidence supporting the kind of public debate that is needed if we are to get it right on pension reform,” said Wolfson.

[*Not-So-Modest Options for Expanding the CPP/QPP*](#), by Michael Wolfson, can be downloaded free of charge from the Institute’s Web site (irpp.org).

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