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Information about the Canada Pension Plan is displayed on Service Canada's website in this file photo. (The Canadian Press/Sean Kilpatrick)

CANADA

'Uncharted Waters': Canada Pension Plan's 75-Year Sustainability Forecast

By Lee Harding | March 13, 2022 Updated: March 13, 2022 Print

Projections that the Canada Pension Plan (CPP) is sustainably funded for 75 years may seem reasonable, analysts say, but they warn that variables could mean changes in the plan's future operations.

The CPP Investment Board (CPPIB) says the CPP will be sustainable over that period based on the most recent triennial report by Canada's chief actuary. Though that report was as at Dec. 31, 2018, the latest performance figures continue to show impressive results.

The fund was worth $550.4 billion by Dec. 31, 2021, and the annual report for the 2020–21 fiscal year, ending March 31, 2021, showed that the fund grew to $497.2 billion in net assets that year, with $83.9 billion in net income.

When the CPP first began a more active investment strategy in 1999, it projected its net income would be just around $325 billion at this point, with the half-trillion mark only reached in 2028.

"They have built up a big surplus, … so in that sense, it's gone well. But as we know, the world is never completely certain over 75 years. We've seen how events can very dramatically change," Jack Mintz, President's Fellow of the School of Public Policy at the University of Calgary and one of Canada's foremost tax experts, said in an interview.

Mintz says he was "around the table" high in the federal bureaucracy when the CPP went through major changes in the 1990s.

He said when the CPP was founded in the 1960s, the federal government won provincial political buy-in by using CPP funds to buy provincial bonds. The doubling of payroll taxes (combined contribution rates by employees and employers) via gradual increases from 4.4 percent in 1990 to 9.9 percent in 2003, along with the better investment strategy since 1999, has created a nest egg.

Mintz said Ontario's Progressive Conservative government was hard to convince when reforms were proposed in the 1990s, whereas its Liberal government was a driving force behind national payroll tax increases five years ago. Although these changes have padded investment holdings, he believes "fiscal policies that remain totally loose" at the Bank of Canada could soon undermine those surpluses.

"We are in new uncharted waters," he said. "You could be looking at inflation and wages and salaries going up faster than before. And then, all of a sudden, rates of return in the stock market don't look so good. And then of course, you have all this uncertainty going on Ukraine."

'A Lot of Uncertainty'

Like Mintz, Trevor Tombe, professor of economics at the University of Calgary, says nothing 75 years from now is certain.

"Any projection that far into the future is, of course, subject to a lot of uncertainty. Who knows what economic and fiscal realities will be at the end of this century, or what kind of magic technology could undermine everything that we think we know about how economies work today. So you've got to take these with a grain of salt," Tombe said in an interview.

The CPPIB has enjoyed an average net rate of return of 10.8 percent over the past 10 years and had a record 20.4 percent return in fiscal 2020–21. Tombe says the mandate for the CPPIB to maximize gains free of political interference has worked well.

"We shouldn't be distorting those investment decisions, economic development goals, such as what we see in the Quebec Pension Fund, at least historically," he says.

"The Canada Pension Plan is, interestingly, not federal. It is a joint federal-provincial-territorial arrangement. And so no single government can change anything about it unilaterally, which is really interesting and unique in Canada and makes it more secure than almost any other kind of fiscal policy arrangement we have."

He says analysis has suggested the 9.9 percent contribution rate for the CPP could drop to 9.72 from 2034 on, but he believes it's more advisable to maintain higher contribution rates to minimize risk.

Potential Alberta Opt-Out

However, an even bigger change could follow if Alberta opts out of the CPP to set up its own pension plan, Tombe says. It's due to Alberta having more younger workers on average than elsewhere in Canada, who've contributed more into the system over the years than the benefits they've received.

"So if Alberta was to set up its own Alberta pension plan, then the rest of Canada would have to make up for the loss of those younger contributing workers. And Alberta, on the flip side, could probably have an Alberta pension plan sustainable at a lower contribution rate," he explains.

Mintz says an Alberta opt-out also has a retroactive aspect. He says the agreement made with the provinces when the CPP was founded would allow Alberta to take out a sizable portion of the CPP surplus if it set up its own plan

"There would be a calculation of principal made [from] the premiums out of Alberta that were paid in the past, and the benefits that were paid out, and how much future benefits would have to be paid assessed, and then that would determine how much of the CPC surpluses would be given to Alberta."

Retired financial planner Jim Otar is more skeptical about the CPP than most. Last year, Otar wrote an analysis for Advisor's Edge, which he recently updated on his website retirementoptimizer.com. In his model, a bad-investment, high-inflation scenario would completely drain CPP holdings before 2060.

"Saying this is good for the next 75 years to me is totally irresponsible," Otar told The Epoch Times.

"There's probably a 30 percent chance of failure in 75 years. Obviously, they raise the rates and things happen, they cut back benefits if things go wrong. They have lots of tools available, but to say it's good today and for the next five years, to me is an exaggeration."