ABSTRACT
This paper provides an examination of the Canada Pension Plan (CPP) expansion proposed by the Government of Canada in June 2016. Because the CPP expansion will reform CPP policy it is necessary to analyse the degree of this impact on working Canadians. This paper begins with an overview of the origins and evolution of the CPP and then explores retirement savings of the Canadian population to date. Finally, it evaluates the expansion which will reform CPP in three major ways: first, it will increase the contribution rate by 2 percent from 9.9 percent to 11.9 percent; second, it will increase the replacement level from 25 percent of income to 33.33 percent of income; and third, it will increase the upper earnings cap from $54,900 to $82,700. The increase in the contribution rate will negatively impact low income Canadians who are already at risk of financial hardship. The Government of Canada is increasing the Working Income Tax Benefit (WITB) to compensate for this effect; however, low tax literacy and the underutilization of social programs by low income Canadians suggests these efforts may be ineffective. This paper’s approach to the second and third CPP reforms is to employ a simple model to estimate maximum pensionable earnings in 2025. The equation is a rudimentary calculation of CPP retirement benefits and one shortcoming of these types of models is that there are many assumptions made about earnings, such as holding income constant, which does not reflect reality. Based on the model used in this analysis, CPP reforms will have a negative effect on the post retirement earnings of all seniors in Canada. If Canadians are unable to increase their retirement income through the CPP reforms, new policy tools will have to be modified in the coming years.

In Canada, pension policy is developed and financed with the goal of accumulating pension benefits for the labour force. This paper will focus on the Canada Pension Plan (CPP) and its impact on a workers’ ability to accumulate pension benefits for their retirement years. Specifically, this paper will look at the proposal for the expansion of the CPP introduced in the 2016 Budget tabled in Parliament by the Liberal government (Canada, 2016b). There are many challenges to studying the impact of pension plans on the Canadian workforce due to its multifaceted nature. Contributions to the CPP extend an individual working life beginning at age 18 and ending at age 70. For this reason, the capacity of the Canadian workforce to plan and save for retirement is highly varied. Additionally, there are several variables that interact with pension policy which affects pension benefits. These variables include gender, education, health, income, the nature of employment, the economy, the use of private savings schemes, and the demographic composition of society to name a few. This paper will not be an exhaustive exploration of the CPP but will serve as a foundation for our understanding of the evolution of the CPP, the justification for its expansion, and the implications for our society.

First, it is necessary to define and understand the terms to be used in the analysis. This presents another challenge because the Government of Canada does not have official definitions for several key ideas that will be discussed in this paper. For example, poverty, retirement, and the middle class remain undefined. While this reflects the fluid and social aspects of these concepts it is a detriment to any academic study on the topic. In this paper, we will understand poverty rates in Canada as measured by the after-tax low income measure (LIM) unless stated otherwise. The definition of retirement is associated with income and labour force participation; however, because retirees are currently allowed
to work and receive benefits simultaneously our understanding of what it means to be retired is blurred. Finally, when discussing the middle class we will see that academics and politicians tend to define them differently. This paper is structured with three main components: First, it will explore the origins of contributory pension policy and its role in helping individuals prepare for retirement. Second, the paper will look at the Canadian population today and how they are saving for retirement. Finally, the paper will look at the CPP expansion proposal and argue that if the goal of the CPP enhancement is to help middle class families it does not appear to meet that target and will have a negative effect on post retirement income for all income brackets.

**Origins and Evolution of the CPP**

The growth of early Canadian cities was a result of the industrial revolution which attracted people seeking employment, but because of a lack of infrastructure, poverty, pollution, and crime persisted. During this period, care of the poor fell to relatives, friends, municipal relief, and private charity. Limited forms of institutional care existed in some provinces through English Poor Laws and religious organization in Québec. Municipalities encouraged relatives to take care of the aging poor who were often unable to do so because of low wages and seasonal unemployment—the same reasons the aging poor were unable to save for themselves. The stigma of the aging poor as dishonest and lacking in morals was eclipsed as charities and institutions became overwhelmed with overcrowding and long wait-lists. Individuals affiliated with charities and institutions unanimously agreed that more should be done for the aging poor before a House of Commons committee in 1912. Their discourse surrounding care of the aging poor reflected the need for security as a social right in which the retired are framed as respectable citizens who are unable to adapt to a changing society, unnecessarily separated from their spouses, and unnecessarily institutionalized (Bryden, 1974). This pressure on the government resulted in the creation of the Old Age Pension Act in 1927 which was amended in 1951 as the Old Age Security and Old Age Assistance Act that finally culminated in the Canada Pension Plan in 1965 that we are familiar with today. Before the adoption of contribution-based pensions, coverage in Canada was limited. The Federal Government of Canada established military pensions in 1870 to control high desertion rates. Federal employees became eligible for pensions in 1870 while provincial employees in Québec were the first to receive pensions in 1876. For Canadian workers not in the military or government, pensions were available to employees of the Grand Trunk Railway in 1874 and the Canadian Pacific Railway in 1903 (Canada, 2016g). Newfoundland was the first province to offer men a means-test pension for the aged in 1911 (Bryden, 1974). During this period discussion in parliament had begun about the possibility of old age pensions for all Canadian workers, which was a result of similar policies being adopted in Germany, the United Kingdom, and New Zealand (Bryden, 1974). The first pension in Canada available to all working men was established by the Old Age Pension Act in 1927. During this period, approximately six percent of the population was over the age of 65, and of this population, approximately 57 percent of men were still in the workforce (Bryden, 1974).
The proposal for a contribution-based pension scheme did not occur until the 1957 election campaign. When the union body Canadian Labour Congress revived the proposal for this type of plan in the early 1960s it was well received politically because it was already an active issue of debate. During the 1963 election, the Liberal, Conservative, and New Democratic parties were all promoting contributory-based pensions for Canadians (Bryden, 1974). In Walter Gordon’s 1964 Budget Speech in the House of Commons, he attempted to ease Canadians misgivings about increasing their payroll taxes by saying that Canadians paid some of the lowest personal income taxes compared to their American neighbours (Canada, 1964). In the 1965 Budget Speech, he further promoted CPP by suggesting that it will help ease the financial burden faced by provincial and municipal governments and that it will serve as a new financial institution for Canadians to invest their savings (Canada, 1965). During this period, approximately 33 percent of people aged 65 and older were considered low income (Canadian Centre for Policy Alternatives, 2015). The Canada Pension Plan began on January 1, 1966.

The CPP can be broken down into two policy logics: the first pillar is universal social provision supplied to the entire aging population through Old Age Security (OAS), and the second pillar is social insurance encouraging labour participation, the latter of which this paper will focus. The CPP is a social insurance policy available only to those who have worked and paid into the plan. Working individuals and their employers will automatically contribute to the plan over time. The amount of benefits received will depend on the amount an individual has contributed yearly and the number of years an individual has worked. It is symbolic that the CPP was administered by the Department of National Revenue (currently Canada Revenue Agency) and the Department of National Health and Welfare (currently Health Canada and Human Resources and Labour Canada), the department responsible for the promotion of the health of Canadians. Working men and women between the ages of 18 and 70 were covered by the CPP. If an individual chose to retire before the age of 70 they would be subject to an earnings test that would reduce the amount of benefits received until the age of 70 is reached. Apart from the self-employed, mandatory retirement was set at age 65 until it was eliminated between 2005 and 2012 (Klassen, 2013). Retirement benefits are designed to replace 25 percent of a worker’s income and the contribution rate for employees and employers was set at 3.6 percent (Canada, 2016d). In 1966, the upper earnings limit was set at $5,000 of annual income and the lower earnings limit was set at $600, which in 2016 dollars amounts to approximately $35,000 and $4,400 respectively (Bank of Canada, 2016). During this period, approximately 9 percent of the population was over the age of 65 (Canada, 2008). The CPP was scheduled to make an actuarial report after the first five years of operation, and despite introducing low and high range estimates in the 1964 report, response to, and participation in, the plan was so substantial and unexpected that the government released an updated report two years early in 1969 (Canada, 2016d).

The CPP has not changed significantly over the years. This is largely because the federal government does not control CPP policy and any changes made must be agreed upon by two-thirds of participating provinces (Canada, 2016i). In 1987, the eligibility age was lowered to 60 to match the Québec Pension Plan and premiums were increased to 5.6 percent. In 1990, premiums were increased to 9.9 percent and incrementally phased in over a period of seven years. (Klassen, 2013). In 1997, the Canada Pension Plan Investment Board (CPPIB) was established to invest the funds of the CPP to help
provide a cushion for the retirement of the baby boomers which are expected to place a maximum demand on the CPP by 2021 (Klassen, 2013). The aim of establishing the CPPIB was to reassure pensioners and employers that pension assets would be properly managed and funds would be available at retirement (Klassen, 2013). Pensioners and employers were becoming increasingly concerned about the large unfunded liability of the CPP, the underperformance of the CPP, and increasing payroll taxes (ibid). In 2012, people who wanted to receive pensions before the age of 65 no longer had to stop working (ibid). Therefore, an individual could be receiving and contributing to their pension simultaneously blurring the line of what it means to be retired. It was also around this time that eligibility for pensions changed with full benefits being available at age 65. Anyone who takes a pension before the age of 65 will see a reduction in their benefits by up to 36 percent and those who take a pension after the age of 65 will see an increase in their benefits up to 42 percent (Canada, 2016e).

The current objective of the CPP as stated by the Government of Canada (2016i) is to provide protection to workers and their families against lost earnings due to retirement. But to what degree of protection and to what extent? There are two criteria that judge the adequacy of income after retirement: whether incomes are above the low-income threshold or whether they allow individuals to enjoy the same standard of living after retirement that they enjoyed before retirement (Baldwin, 2010; McDonald and Donahue, 2011). What this means to an individual will vary based on their own personal history. For example, almost 10 percent of the Canadian population in 2011 were considered low income earners (Canada, 2013r). We can assume that when these individuals retire living above the low-income threshold and enjoying the same standard of living will be very similar; however, for those that fall within higher earnings brackets, the idea of living above the low-income threshold or at the same level of income after retirement is dichotomous. Qualitative research on the experience of retirement transition for seniors reveals that most retirees feel confident about their financial situation pre-retirement. Very few retired individuals had worked or currently work with financial advisors to plan their investments which leave them at risk for lost assets due to inflation or unexpected expenses. For this reason, some men and women have experienced difficulties to maintain their assets leading to uncertainty or anxiety about the future (Greenwald and Associates, 2016; Goodwin and O’Connor, 2014; Makenzie, Keuskamp, Ziersh, and Baum, 2011).

The Canadian Population Today and Retirement

The CPP is widely credited with reducing low income rates of seniors in Canada. When the first CPP benefits were received by retirees there was a sharp decline in the rate of low income for seniors going from approximately 35 percent in 1976 and levelling off to approximately 5 percent in 1997 (Conference Board of Canada, 2016). Low income rates increased around the economic recession of 2008 to 5.8 percent (Canada, 2009b) which decreased to 5.2 percent by 2011 (Canada, 2013). Different groups are more at risk to live in low income households within the senior demographic. The incidence of low income is highest for seniors who are unattached (15.6 percent) and senior women (7.6 percent) compared to seniors who live in economic households (1.6 percent) and senior men (3.6 percent).
highlighting the impact of familial support, low-wage work, and inequality (Canada, 2010).

The main sources of income for seniors today are employment income, investment income, Old Age Security/Guaranteed Income Supplement, Canada Pension Plan/Québec Pension Plan, and private pensions. In 2005, approximately 97 percent of the labour force was contributing towards or receiving, CPP benefits (Canada, 2009c; Canada, 2008). Overall, 55 percent of seniors who have retired within the past five years feel that they are financially the same as before they retired, approximately 19 percent feel that they are better off, and approximately 26 percent feel that they are worse off (Ontario, 2009).

It should be noted that there is an income bracket dimension to these responses and those who were more likely to respond that they are now worse off after retirement are individuals who were in higher income brackets pre-retirement. Since the 1970s senior incomes have dramatically improved. The average income for seniors between 1976 and 2006 increased from $33,380 to $51,682 (ibid). After the introduction of the CPP, retired seniors’ incomes increased continuously until the mid-1990s when income from the CPP became flat, matching reliance on private pensions for income, and then reliance on private pensions as a source of income increased (ibid). While this trend should not concern us if we look at the savings rate of public sector employees, it does deserve some consideration when we investigate the savings rates of employees in other sectors. For example, individuals who work in the business sector fall 2 percent below their savings target, while other sectors, including the self-employed, fall 1.5 percent below their savings target for retirement benefits (ibid). Part of this issue is a low-interest rate environment that limits returns on safe investments and reduces the value of mutual funds and dividends (Williams, 2003).

The CPP is funded solely from the contributions made by the employed through payroll taxes. In 1997, payments made by workers and employees were legacy costs meaning they were paying money into benefits that had already been distributed to the population leading to a lack of confidence in the scheme (Baldwin, 2010). Pension reform at the time was difficult and provinces were resistant to increasing the contributory rate. Since 1997, the CPPIB has generated greater public confidence about the financial future of the CPP through its successful investment-optimizing mandate. The retirement of the baby boomer generation presents significant challenges for pension policy in Canada. Today, three out of ten people in Canada are baby boomers. This cohort has so much impact that a metaphor has become commonplace about their aging and exit from the workforce that does not inspire confidence: the silver tsunami. In 1976, approximately 9 percent of the population was aged 65 and older compared to 14 percent in 2011 (Klassen, 2013). By 2021, seniors are expected to outnumber children aged 14 and under impacting the age dependency ratio with implications for social and economic development, and demands on social support (Canada, 2016j). The percentage of the population aged 65 and older is expected to reach over 25 percent by the year 2050 (Canada, 2012).

The evolution of pensions for seniors in Canada today has resulted in an increased reliance on private pensions. Considered the third pillar, private pensions include employer based workplace pensions and individual retirement savings plans. In 2005, approximately 35 percent of the labour force was contributing towards private pensions (Canada, 2009c; Canada, 2008). Employer based workplace pensions come in three forms: defined benefit plans (DB) that set out what benefits the worker will receive on retirement (this is the form of the CPP); defined contribution plans (DC) that are employer
sponsored but individually provisioned, where the individual takes on all the risk; and finally, hybrid/mixed plans (H/M) where income is derived from both DB and DC portions (Canada, 2014). DB plans were traditionally the predominant plan of the public and private system (Ezra, 2015); however, between 1977 and 2011 there was a drop in DB plans in the workplace by 20 percent and an increase in DC and H/M plans by 10 percent (Canada, 2014). Overall, pension coverage for private sector employees declined from 35 percent in 1977, to 25 percent in 2007, yet when we look at differences by gender we find two different stories (Ontario, 2009). Workplace pensions for men declined from 57 percent to 37 percent while they increased for women from 24 percent to 33 percent (Canada, 2014). The reason women see increased coverage during this period while men see a decrease is a result of their employment industry with women working in high coverage sectors such as education and health services (ibid). Research shows that DB pension coverage in Canada increases with the amount of time spent with an employer that is not the result of an age effect (ibid).

When the responsibility to manage an investment falls on the employee a phenomenon called yield disparity occurs where the lower your socioeconomic status the lower your investment income. According to Morey (2010) less educated workers are often overwhelmed by investment decisions and are more likely to choose default plans with lower earnings. On average, modest estimates conclude that less educated workers have a 2 percent lower rate of return per year on their retirement accounts than workers with higher education. Even when companies hold educational seminars it has been shown that people with lower incomes benefit less from these seminars than people with higher incomes (Morey, 2010). Therefore, a decrease in DB pensions and an increase in DC pensions can result in lower earnings for individuals, especially those working in the private sector and those who are less educated within the private sector. Other forms of private pensions include Registered Retirement Savings Plans (RRSPs), private investments and other income or assets. Approximately 38 percent of the labour force in 2005 was contributing to RRSPs (Canada, 2009c; Canada, 2008). RRSPs and other private investments primarily target people in middle or high income brackets and are not very effective at helping low income individuals prepare for retirement. This is concerning because these savings methods have become a significantly larger source of income for seniors in retirement. Between 1990 and 2005 the reliance on RRSPs as a source of income increased by 55 percent for men and 135 percent for women, while the reliance on private investments decreased for men by 53 percent and 24 percent for women (Canada, 2009c).

Even when individuals have workplace pensions there can be uncertainty surrounding pension payments to employees. In Canada, companies have been taken to court for failing to fulfil their contractual obligations to their employees. Canada has laws in place to protect workers and their pensions although they need to be strengthened. To protect workers Parliament passed Bill C-12 in 2007 which states that employers are obligated to make any payments that would have been required of them (Canada, 2007). This Bill came under criticism by the late Jack Layton in 2009 when he questioned the government on its lack of enforcement of the Bill citing GM and AbitibiBowater (currently Resolute Forest Products) as two companies that had not been held accountable for pension shortfalls. Minister of Industry, Tony Clement, responded by stating that the government was working on regulations to enforce the laws that had been passed in 2007 (Canada, 2009a). In 2016, Nortel came to an agreement
with its employees regarding their pensions after an eight-year battle in court that will result in Canadian employees receiving 40 cents on the dollar for the pension payouts. This highlights the uncertainty that pensioners can face especially for those who are employed by American companies that are not under the same legal obligations to their employees (The United States, 2017).

Another important factor impacting retirement benefits is the nature of employment. Pension benefits are based on the number of hours an individual has worked throughout their life (Canada, 2016f). Full-time employment is defined as working at least 30 hours per week in one main job (Canada, 2015b). Although the full-time employment rate in Canada has risen modestly since 1976, we again note differences between men and women. Apart from women aged 25 and under who have seen a decrease in their full-time work, women overall have greatly increased their full-time work participation. This is different for men overall who have seen a significant decline in full-time work that cannot be explained by a preference for part-time work (Canada, 2009b). Additionally, a large portion of increased part-time work is a result of the inability to find full-time employment and cannot be fully explained by a decline in labour market participation or an increase in the unemployment rate (Canada, 2009b). We can see that there is a trend towards fewer opportunities for individuals to save for their retirement, whether it be a result of earning less or saving less over their working life. Change in the nature of work and employment contracts in a post-industrial and increasingly service and knowledge dominated economy is a phenomenon not unique to Canada but implies a rethink of pension design.

CPP Expansion

How successful are Canadians at saving for retirement? People do not always act in their best interest when it comes to retirement savings and Canadians tend to have sub-market performance in their investments compared to their American neighbours (Kesselman, 2010). Additionally, Canadians are living longer lives which increases their risk of outliving their savings (Canada, 2015a). Life expectancy in 1960 for Canadian men and women was 68 and 74 respectively compared to 2013 which was 79 and 84 (Canada, 2017). If we kept pension policy at the current status quo we would likely see an increase in reliance on OAS/GIS in the future, which should be avoided, because it is financed by the general tax revenue of Canadians.

In June of 2016, Canada’s Minister of Finance Bill Morneau met with provincial and territorial Finance Ministers to discuss retirement security for Canadians where they agreed, in principle, to work on enhancing the CPP (Canada, 2016c). Before talks about the expansion of the CPP began in earnest, several provinces were already consulting with one another about the need to expand pensions for their workers including British Columbia, Manitoba, Ontario, New Brunswick, Nova Scotia, and Prince Edward Island (British Columbia, 2010). They argued that because CPP is the most practical approach to strengthen retirement income in Canada, serious consideration should be given for its expansion.

In the CPP expansion backgrounder, the Ministry of Finance argues that the middle class is not saving enough for retirement (Canada, 2016a). One problem with using the term middle class is that there is no clear definition, and as a result, economists, political theorists, sociologists, and politicians...
may have something different in mind. Academically speaking, the question of the middle class has been actively discussed since Marx’s materialist debate about class struggle. In its original conceptualization, the middle class was a group of business owners belonging to the proletariat, not the bourgeoisie. We often refer to this conceptualization as the old middle class, as the proportion of small business owners in Canada has shrunk considerably over time. The new middle class is generally thought to contain mostly employed workers, which encompasses an overwhelming majority of the Canadian class structure; but with such a large disparity in earnings, this doesn’t tell us much about what it means to be middle class (Tepperman and Curtis, 2004). Most Canadian’s believe that they are a part of the middle class (Blatchford, 2015) and when asked what issues politicians should focus on ‘help for the middle class’ is often one of the top responses (Ipsos, 2016). Although Finance Canada does not define the term middle class, by examining their assessment of who is not saving enough for retirement, the third quintile has the largest share of under-savers represented by those who earn approximately $38,000 after tax in 2010 (Canada, 2015c). Yet, we also know that former Minister of Finance Joe Oliver said that families who earn $120,000 qualify as middle class (Blatchford, 2015). It would seem that there is a large variation in what it means to be middle class academically and politically. Regardless of whoever we identify as the middle class, more than 70 percent of Canadians support CPP expansion even though it means higher deductions on paycheques (Angus Reid Institutue, 2016; The Forum Poll, 2016).

The expansion will reform the CPP in three major ways: first, it will increase the contribution rate by 2 percent from 9.9 percent to 11.9 percent; second, it will increase the replacement level from 25 percent of income to 33.33 percent of income; and third, it will increase the upper earnings cap from $54,900 to $82,700.

The first CPP reform will raise premiums from 9.9 percent to 11.9 percent of pensionable earnings and will result in payroll tax increases for working Canadians and businesses. Increased payroll taxes will result in lower take-home pay for all Canadians. Finance Canada recognizes that low income earners will be negatively impacted by the raise in premiums (Canada, 2016h). Currently, 10 percent of low income families are unable to save enough for retirement to replace 60 percent of their income post retirement, and with the raise in premiums, this number will increase (ibid). A reduction in available take-home pay will cause additional strain on low income earners. To compensate for this negative impact the Government of Canada is increasing the Working Income Tax Benefit (WITB) to help low income families who are unable to make room in their budget for higher contribution rates (Canada, 2016a). There are potential negative impacts of reduced disposable income for low-income individuals and families. Living paycheck to paycheck has many negative effects on the lives of the working poor especially in situations of immediate cash shortfalls (Parliament of Canada, 2006). People with incomes of less than $30,000 a year are most likely to turn to non-mainstream financial services known as payday lending companies, and in a study by the Financial Consumer Agency of Canada, low-income individuals responded that the main reason they used payday loans was because they needed the money immediately (ibid). Furthermore, a study by Marston and Shevellar (2014) found that despite knowledge of the high cost of the payday loans individuals chose to borrow for pragmatic reasons. The effects of poverty and low income on the long term health and well being of populations is well studied (Raphael, 2003; Danis, 2010; Wanless, 2010) and there is a risk that the working poor will have worse health
outcomes post retirement years if their level of poverty is increased during their working years. It has been reported that social programs are underutilized in Canada (Genest-Grégoire, Godbout, and Guay, 2017). Furthermore, low income is associated with decreased tax literacy (ibid) suggesting that the successful expansion of the WITB faces serious challenges. To avoid potential negative outcomes the Government of Canada will want to maximize the participation of low income earners in the refundable tax credit to ensure the success of the WITB (Forman, 2010).

The following section of the essay will explore the second and third CPP reforms. The second reform is to increase contribution rates from 25 percent to 33.33 percent, while the third reform is to increase the maximum contribution cap from $54,900 in 2016 to $82,700 by 2025. To explore reforms two and three, this paper’s approach is to use an equation that contains the parameter of a year’s maximum pensionable earnings interacting with the contribution rate and the number of years worked. This equation is modeled after a Fraser Institute report (2016) and can be expressed as follows:

\[
X = Y \left( \frac{\text{past 5 years earnings}}{5} \right) \sum_{n=1}^{\text{year n earnings}} \frac{\text{year 1 max pension earnings}}{n}
\]

Years maximum pensionable earnings is given by X, where Y is the contribution rate, and n is the number of years worked. The equation is a rudimentary calculation of CPP retirement benefits and one shortcoming of these types of models is that there are many assumptions made about earnings, such as holding income constant, which does not reflect reality. Additionally, the three income levels selected for the analysis match the three income levels addressed in the Finance Canada Backgrounder (2016a). Three static numbers were chosen to highlight the effect of the increase in the contribution rate and income cap rather than using low, middle, and high income estimates which are not static and subject to change.

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Within all three income levels, reforming the replacement level in conjunction with the maximum
contribution cap will have a negative impact on estimated maximum pensionable earnings for individuals retiring in 2025 compared to those retiring in 2016. Projections from Finance Canada (2016h) estimate that the income gap for at risk families will be reduced by approximately 45 percent; however, when we refer to the simplistic calculation of benefits above there does not appear to be any increase in maximum pensionable earnings. If the goal of CPP enhancement is to help middle class families it does not appear to meet that target.

Conclusion

The history of contributory pensions in Canada is long and complex. There are many variables that interact with retirement and employment that leave us with rudimentary summaries of a rich and diverse field. With the introduction of the Canada Pension Plan in 1966 the incidence of low income for people aged 65 and older dramatically reduced. Since the 1960s, Canada has seen an increase in life expectancy and an improved quality of life for retirees, a reduction in workplace pensions, and an increased reliance on the third pillar post retirement. Currently, Canadians in every tax bracket do not save enough for retirement. With the CPP enhancement, the labour force will be required to pay larger payroll taxes. Looking at the reforms Finance Canada has proposed to achieve the goal of increased post retirement income from the CPP it does not seem apparent that they will be successful especially for low income Canadians who face decreased take-home income and potential low participation rates in the WITB. Employing a simple model to estimate maximum pensionable earnings in 2025, when maximum contributions and replacement level reforms will be complete, the increase in income claimed by the Government of Canada was not replicable. Based on the model used in this analysis, CPP reforms will have a negative effect on the post retirement earnings of all seniors in Canada. Framing the CPP enhancement around the middle class appears to be rhetoric used by politicians to justify its implementation and ensure that the Canadian population would be in favour of increasing their payroll taxes. Given that federal and provincial support is necessary to make modifications to the Canada Pension Plan it may be years before we see reforms to the CPP. If Canadians are unable to increase their retirement income through the CPP reforms, new policy tools will have to be modified in the coming years.
References


