National Association of Federal Retirees

July 2008 Submission to the

Nova Scotia Pension Review Panel

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FSNA wishes to thank the Nova Scotia Pension Review Panel's invitation to provide input on what needs to be done to further protect pension plans in Nova Scotia.

The mandate of FSNA is to protect and enhance retirement and health care benefits of current and future pensioners from the Public Service of Canada, the Canadian Forces and the Royal Canadian Mounted Police, and of federally appointed judges.

As the sound governance of any specific pension and health care programs is largely affected and influenced by the whole landscape of public and private pension and health care programs, FSNA has to remain alert to any development having an impact on the soundness of this whole landscape.

Therefore, FSNA must remain vocal whenever issues affect any large segment of the pension landscape. It is within this broad framework that FSNA is proposing in section B a solution that addresses not only the main issues affecting the Nova Scotia pension systems but also, and more importantly, retirement security as a whole in Canada.

A- Answering specific questions raised in the Discussion Paper

FSNA's answers are provided hereafter in a succinct form but the context upon which their rationale rests is provided in greater detail thereafter in section B.

4.1 Policy issues

- *Should the current trend towards less DB plans be accepted, or should regulators permit DB plans that may be more attractive to employers by reducing funding risks?*
  The trend towards less DB plans is not welcome. Regulators might consider the design of DB plans whereby funding risk would be shared by the employer and the group of plan members in proportion to the contributions made by each of these two parties. This means that both deficits and surpluses would be amortized through contribution rate increases and decreases, respectively, shared in the above-mentioned proportion by the two parties.

- *In the case of DC plans, to what extent should an employee's right to make investment choices be limited, and by whom*
  Ideally, all investment choices should be made only by the plan sponsor's or by a joint (employer and group of employees) advisory group.

- *Should new forms of DB pension plans be permitted to enhance their availability*
  It is believed that DB plans can hardly be designed better that they already are. The main issue is the low penetration of Retirement Pension Plans, which can only be resolved by compelling employers to sponsor a pension plan for their employees. This could be achieved by either designing a mandatory uniform private DB plan, which would reduce legal and administrative complexities or by expanding vertically the CPP/QPP (this latter approach is discussed in section B of this submission).

- *Should new forms of Hybrid pension plans be permitted to enhance their availability?*
  No. Emphasis should rather be put on one of the two (private, public) approaches mentioned in the previous paragraph.

- *Should DC members have the ability to use different disbursement options, such as LIF type payments, rather than be required to convert funds on their retirement date?*
  Ideally, DC members should all be compelled to convert their funds into an indexed lifetime annuity between their retirement date and age 71.

4.2 Pension Plan Funding

- *Are current rules for measuring and remediation of going concern and solvency deficits appropriate?*
  Yes.

- *Should there be exceptions to the funding rules for universities, multi-employer pension plans and municipalities, or anybody else?*
  No.

- *Should going concern funding still be a requirement?*
  Yes.

- *Should promises as to future benefit accrual be restricted to the level that can be funded by contributions?*
  No.

- *Should there be a requirement for full funding at wind-up?*
  Yes.

- *Is the idea of a province wide pension plan for some public or private employers a good idea? Should such a plan operate as a multi-employer pension plan?*
  It is not a bad idea but compelling such an approach might not be a good idea. Any compelling rule should apply to all employers.

4.3 Surpluses

- *Should regulators speak to the question of the ownership of plan surpluses? If so, what should it say?*
  It should adopt the approach developed by the Canadian Institute of Actuaries in 1992 (Task Force chaired by Paul McCrossan) whereby deficits and surpluses are to be amortized over a period of five years through increases or decreases, respectively, in contribution rates and whereby contribution holidays are to be fully prohibited.

- *Is the concept of "deferred wages" valid? And if so, is there any current validity to it with respect to the determination of the responsibility for funding and for entitlement of surplus?*
  Yes. It is believed that the above approach for amortizing deficits and surpluses is fully consistent with the deferred wage principle.

4.4 Multi-Employer Pension Plans

- *How should funding concerns for MEPPs be addressed? Would permitting the implementation of a different type of Hybrid pension plan be useful for MEPPs?*
  It is believed that any MEPP should be handled in the same manner as any single-employer pension plan.

- *Which of the funding tests should apply to MEPPs?*
  The same as those applying to single-employer pension plans.

- *Should regulators facilitate the further development of hybrid plans? Would the Quebec model be an attractive option for Nova Scotia employers?*
  No.

4.5 Governance

- *Should government attempt to define, audit, and regulate "good governance"? Why or why not? Is so, what types of governance issues should be regulated?*
  No.

- *Given that there are associated costs with governance, what is an appropriate cost for "good governance"?*
  N/A

4.6 Role of regulators

- *Does the current regulatory system work effectively? Are there currently unnecessary rules and regulations in place? If so, what are they? Should the appeal process be changed? If so, how?*
  We are not enough familiar with the NS regulatory system to answer this question.

- *Should a plan have a minimum number of members before the government will regulate it? If so, what minimum number of members would be appropriate?*
  Regulations should be uniform irrespective of the number of members in any plan.

4.9 Unlocking Funds

- *To what extent should regulators attempt to regulate an employee's right to access funds?*
  Right to access locked-in funds should be fully prohibited. Financial hardship could be addressed by obtaining loans using locked-in pension funds as collateral.

4.10 Grow-in Benefits

- *Should the legislation require grow-in benefits to be provided on plan wind-up?*
  Ideally, grow-in benefits should be prohibited because they essentially induce inequities between some employee cohorts.

- *Should legislators maintain the requirement to fund grow-in benefits upon wind-up?*
  No.

5.1 "Safe Harbour" Rules

- *Should "safe harbour" rules be established that would give DC plan sponsors and administrators protection from litigation?*
  No.

5.2 Phased Retirement

- *What other issues are raised by phased retirement and what should be the regulatory position of Nova Scotia?*
  Phased retirement is a human resources-related matter to which the pension plan should adapt and should not be constrained by the pension plan. For example, employees entitled to an unreduced pension should be allowed to start receiving it without having to retire, especially if they have completed 35 years of pensionable service.

5.3 Tax Free Savings Accounts

- *What should the regulatory position of Nova Scotia be with respect to TFSAs for pension purposes?*
  We are not in a position at this time to assess whether TFSAs should be included in group plans.

B- FSNA's position on what needs to be done to further protect pension plans in Nova Scotia

Registered Pension Plans (RPP) sponsored by private employers for their employees, whether they are of the defined benefit (DB) or the defined contribution (DC) type, play an important economic role at both the microeconomic and the macroeconomic levels, as they make:

- A substantial contribution to retirement security by preserving a certain portion of the concerned individuals' standard of living in their old age, which appreciably reduces poverty levels among seniors

- Available sizeable amounts of funds for investment in the markets.

RPP's have for years constantly provided substantial amounts of funds for investment in the private markets and are expected to continue to do so. However, even if the level of retirement security provided by RPP is material, it has remained quite stagnant and insufficient over the past decades for the following two reasons:

1. **Low penetration rate of RPP**
   As shown in Appendix 1, only 38.5% of all Canadian paid workers were covered by a RPP in 2006. Such partial coverage has prevailed and remained somewhat stagnant over the past decades. However, as employers are not compelled to sponsor a RPP, it is a relief that so many of them do so. Still, considering the effective impact of RPP on retirement security, their penetration rate should be as large as possible and ideally not different from that of the Canada and the Quebec Pension Plans (CPP/QPP). Consistent with CPP/QPP participation requirements, figures in Appendix 2 indicate that close to 100% of all Canadian workers are covered by the CPP/QPP.

   Following the implementation of the CPP/QPP in 1966, the proportion of Canadians over age 65 receiving benefit payments from the Guaranteed Income Supplement (GIS) program has decreased from 57.0% at the end of 1973 to 35.7% at the end of 2003 (see GIS recipient rates in Appendix 3). The GIS recipient rates are projected to decrease further to 15.6% by the end of 2075. Notwithstanding this important role played by the CPP/QPP in reducing poverty levels among Canadian seniors, these current and projected levels of poverty among seniors indicate that more than the current CPP/QPP provisions and the prevailing RPP penetration rate are required to provide Canadian seniors with a decent level of retirement security.

2. **Investment risk and investment fraud**
   A recent survey (see Appendix 4) and other studies show that among seniors who have investments, a great proportion experience serious investments frauds that amount to billions of dollars each year. The fraud risk would normally be more prevalent among DC plans than among DB plans because plan sponsors are expected to have more investment expertise and capabilities than the average senior as an individual. Therefore, the fraud risk exacerbates the other following issues arising out of the recent conversion of several large DB plans into DC plans.

   About 81% of all RPP are of the DB type, while about 16% are of the DC type (see Appendix 5).

DB plans have the important characteristics of:

- Providing covered employees during their retirement with an amount of income that is essentially guaranteed, determined and not subject to variations, and
- Being well suited to protect their "promised" benefits against inflation

More and more pension plan sponsors are converting their DB plans into DC plans because:

- The investment risk is assumed fully by the members of the plan (both employees and pensioners). Incidentally, not only is a plan sponsor normally better educated in respect of selecting proper investments and avoiding investment fraud, but the investment risk for the sponsor of DB plans is further contained by the sponsor's right to reallocate pension costs between the sponsor and the plan members when the DB plan is in a deficit position and, in some instances, to take advantage of contribution holidays and access to portion of the funds when the plan is in a surplus position.
- Their annual costs are more stable and can be more easily budgeted by the sponsor.
- They are much less cumbersome and costly to administer, mainly because they are not subject to the very complex and varying provincial laws governing DB plans. For example, they are exempt from the preparation of triennial actuarial reports, the amortization of deficits and the contentious litigations pertaining to ownership of surplus.

Despite these non-negligible advantages of DC plans, FSNA strongly favours DB plans over DC plans simply because the characteristics of a pension plan that benefit the employees and the pensioners should prevail over the characteristics that benefit the sponsoring employer, as pension plans are implemented for the benefit of the plan members, not for those of the plan sponsor.

3. Proposed solution to RPPs' low penetration rate and investment risks

Considering the superiority of DB plans over DC plans from the plan members' perspective and the importance for all Canadian paid workers to be covered by a fully funded indexed pension plan that would subject employers to governance rules less cumbersome than RPP of the DB type do, FSNA believes that the CPP/QPP should be expanded vertically by:

- **Increasing from 25% to 70% the retirement benefit rate**
  It is understood that the salary replacement rate need not be as high as 70% in all individual cases, particularly for higher salaries, but the 70% level is proposed because it is barely essential to keep low earning persons above poverty levels.
- **Increasing the YMPE to $111,111**
  The tax limit applying to RPP's in 2007 is equal to $111,111. The limit applying to CPP/QPP contributory and pensionable employment earnings, i.e. the Year's Maximum Pensionable Earnings (YMPE), is 43,700 for 2007.

As the CPP/QPP already prescribe that any benefit improvement thereto shall be fully funded, it is estimated that such CPP/QPP vertical expansion would entail a doubling of the existing CPP/QPP contribution rate, i.e. an immediate increase of 9.9% in the current CPP/QPP contribution rate, i.e. from 9.9% to 19.8%. This is explained in Appendix 6.

Since the CPP contribution rates are combined for employees and employers, the proposed expansion would mean an immediate increase of 4.95% in each of the employee and the employer contribution rate.

Obviously, a sudden increase of 9.9% in the combined CPP/QPP contribution rate would be much more drastic than the comparable 3.6% sudden increase that actually took place in 1966. Therefore, the CPP/QPP vertical expansion might need to be implemented on a gradual basis, e.g. the 45% increase in the benefit rate could be applied by steps of 5% every five years.

Besides, as was the case in 1966, any resulting increases in CPP/QPP contribution rate increases would actually apply in full only to employers not already sponsoring for their employees a DB or a DC plan, in which case concerned employers would likely have to rely on global compensation principles to absorb these new pension costs.

Moreover, the full CPP/QPP vertical expansion could actually reduce pension costs of employers already sponsoring a DB plan coordinated with the CPP/QPP because of the following three main factors:

- The CPP/QPP retirement benefits are based on career average employment earnings rather than final average salaries
- The CPP/QPP contributory period is longer than 35 years, i.e. 47 years for the normal retirement pension
- The CPP/QPP normal retirement age is generally higher, i.e. 65 versus 60 or less in respect of several private DB plans.

This means that for employers already sponsoring a DB plan coordinated with the CPP/QPP, under which pensions accrue at an annual rate of 2% over no more than 35 years, the immediate implementation of such a CPP/QPP vertical expansion might not entail any increase in pension costs. On the effective of date of the modified CPP/QPP, retirement benefits would stop accruing under all such coordinated DB plans and would rather continue accruing under the modified CPP/QPP. Alternatively, in the year following its effective date, the expansion could apply only to all CPP contributors reaching age 18 during the effective year, and so on for the subsequent cohort of contributors reaching age 18 in each subsequent year, which would also require 47 years for full implementation of the expansion but would require a much smoother and less immediately impacting increase in total CPP/QPP contributions.

Likewise for existing DC plans, no new contributions would need to be made after the effective of date of the modified CPP/QPP and the 9.9% contributions to the CPP/QPP

would be increased by an immediate further 9.9% and increases of about 0.1% every 10 years or so to account for increased longevity.

Hopefully this ideal but drastic scenario of a vertically expanded CPP/QPP will get the attention it deserves not only because it can serve as a guide for the finding of a reasonable solution to most, if not all, retirement security issues facing Canadian seniors but also because under the CPP/QPP:

- Critical matters such as ownership of surplus, amortization of deficits, complexity of the different provincial laws applying to DB plans are not really an issue

- The favourable characteristics of both DB and DC plans are present

- All paid workers are covered

- Investments are under the responsibility of a Board that is subject to national public scrutiny

4. Conclusion

Understandably, FSNA's proposal for vertically expanding the CPP/QPP is quite radical. Even though it may appear a utopian idea to some readers, it must be stressed that it is at least a model solution that is intended to, and hopefully will, generate fruitful discussion and lead to other useful ideas. Moreover, FSNA recognizes that other organizations are quite able to expound on the benefits of DB vs. DC pension plans. As well, the Nova Scotia Pension review Panel is likely to have undertaken its own research in these areas. Some have criticized the CPP/QPP vertical expansion proposal for having the ultimate effect of putting at great risk the survival of the private pension industry. This is a genuine risk. FSNA's survival too would be at risk. But this risk should not be an overriding constraint because our common aim is not to protect our respective organizations but rather the **retirement security of all current and future Canadian seniors**.

APPENDIX 1

Proportion of labour force and paid workers covered by a registered pension plan (RPP) http://www40.statcan.ca/l01/cst01/labor26a.htm					
	1985	**1991**	**1995**	**2000**	**2006**
Both sexes					
Number of RPP members	4,668,381	5,318,090	5,149,912	5,431,578	5,690,580
Labour force (%)	35.3	36.7	34.7	34.0	32.5
Paid workers (%)	44.2	45.3	42.8	40.8	38.5
Paid workers (numbers derived from above %)	10,561,948	11,739,713	12,032,505	13,312,691	14,780,727
Men					
Number of RPP members	3,047,160	3,129,263	2,894,564	2,984,444	2,977,758
Labour force (%)	39.9	38.9	35.5	34.4	31.9
Paid workers (%)	50.5	49.1	44.5	41.9	38.3
Women					
Number of RPP members	1,621,221	2,188,827	2,255,348	2,447,134	2,712,822
Labour force (%)	29.0	33.9	33.8	33.4	33.3
Paid workers (%)	35.7	40.8	40.9	39.5	38.7

Notes:

- The data used from Labour Force Survey (labour force and paid workers) are annual averages to which the number of Canadian Forces members was added.
- Paid workers refer to employees in the public and private sector and include self-employed workers in incorporated business (with and without paid help).
- Registered pension plans are plans established by either employers or unions to provide retirement income to employees.

Source: Statistics Canada, Pension Plan in Canada and Labour Force Survey.
Last modified: 2007-07-06.

APPENDIX 2

CPP/QPP Selected Figures (2007)
http://www.hrsdc.gc.ca/en/isp/statistics/rates/octdec07.shtml

	CPP	QPP
Year's Maximum Pensionable Earnings (YMPE)	$43,700.00	$43,700.00
Year's Basic Exemption	$ 3,500.00	$ 3,500.00
Employee/employer maximum contribution (4.95%)	$ 1,989.90	$ 1,989.90
Self-employed maximum contribution (9.9%)	$ 3,979.80	$ 3,979.80
Account balance (January 2007)	$116,400 M	$33,595 M
Contributions (2005 - 2006)	$31,480 M	$ 8,944 M
Number of contributors 2004 **(total 15.6M)**	11.9 M	3.7 M
Indexation rate (January 2007)	2.1%	2.1%

APPENDIX 3

The following two pages are extracts from the 7th actuarial report on the Old Age Security Program as at 31 December 2003

Table 5 Beneficiaries (Historical)

Year	Number of Beneficiaries			Recipient Rates*		
	OAS	GIS	A	OAS	GIS	A
	(thousands)	(thousands)	(thousands)	(%)	(%)	(%)
1966	1,199	-	-	98.1	-	-
1967	1,332	662	-	98.1	41.6	-
1968	1,470	760	-	97.7	46.6	-
1969	1,629	803	-	97.4	48.0	-
1970	1,689	816	-	98.4	47.6	-
1971	1,735	932	-	98.4	52.9	-
1972	1,780	998	-	98.5	55.2	-
1973	1,825	1,058	-	98.4	57.0	-
1974	1,874	1,069	-	98.4	56.1	-
1975	1,925	1,069	70	98.3	54.6	7.8
1976	1,975	1,084	71	97.6	53.6	7.8
1977	2,035	1,112	73	97.4	53.2	7.9
1978	2,098	1,127	74	97.3	52.3	8.0
1979	2,179	1,164	74	97.7	52.2	8.0
1980	2,259	1,191	75	98.0	51.7	7.9
1981	2,326	1,232	77	97.8	51.8	7.8
1982	2,389	1,228	81	97.8	50.3	7.8
1983	2,448	1,229	86	98.0	49.2	8.0
1984	2,511	1,246	89	97.9	48.6	8.0
1985	2,595	1,290	91	97.9	48.7	8.1
1986	2,683	1,316	139	98.0	48.1	12.2
1987	2,778	1,336	140	97.9	47.1	12.2
1988	2,862	1,342	135	97.8	45.8	11.6
1989	2,948	1,339	128	97.4	44.2	10.9
1990	3,036	1,325	121	97.3	42.4	10.3
1991	3,127	1,309	115	97.2	40.7	9.6
1992	3,210	1,300	110	97.4	39.4	9.2
1993	3,289	1,313	108	97.6	39.0	8.9
1994	3,367	1,340	109	97.9	39.0	9.0
1995	3,447	1,338	108	98.2	38.1	8.9
1996	3,524	1,341	101	98.5	37.5	8.3
1997	3,589	1,364	100	98.2	37.3	8.3
1998	3,656	1,368	97	98.2	36.7	8.0
1999	3,715	1,372	97	98.1	36.2	7.9
2000	3,781	1,363	95	98.1	35.4	7.6
2001	3,852	1,360	93	98.2	34.7	7.2
2002	3,923	1,404	92	98.3	35.2	6.9
2003	3,999	1,450	92	98.5	35.7	6.6

* The overall historical basic OAS pension recipient rates and number of beneficiaries are on a gross basis (i.e. before applicatio of the clawback provision).

Appendix F – Financial Results Excluding Part 23 of Bill C-43

Table 59 Beneficiaries (excluding Part 23 of Bill C-43)

Year	Number of Beneficiaries			Recipient Rates*		
	OAS	GIS	A	OAS	GIS	A
	(thousands)	(thousands)	(thousands)	(%)	(%)	(%)
2004	4,078	1,483	93	98.5	35.8	6.4
2005	4,162	1,511	95	98.7	35.8	6.2
2006	4,259	1,538	97	98.8	35.7	6.1
2007	4,359	1,563	100	98.8	35.4	5.9
2008	4,476	1,591	103	98.9	35.2	5.7
2009	4,593	1,618	106	98.9	34.8	5.6
2010	4,723	1,644	109	99.1	34.5	5.5
2011	4,864	1,672	111	99.1	34.1	5.5
2012	5,056	1,710	110	99.2	33.5	5.3
2013	5,244	1,746	108	99.3	33.1	5.2
2014	5,425	1,780	108	99.3	32.6	5.0
2015	5,611	1,813	109	99.4	32.1	4.9
2016	5,800	1,845	110	99.4	31.6	4.8
2017	5,991	1,878	111	99.5	31.2	4.7
2018	6,193	1,912	112	99.6	30.7	4.6
2019	6,406	1,949	112	99.6	30.3	4.5
2020	6,629	1,987	112	99.6	29.9	4.4
2021	6,853	2,024	111	99.7	29.4	4.3
2022	7,085	2,062	111	99.7	29.0	4.3
2023	7,320	2,101	110	99.8	28.6	4.2
2024	7,555	2,138	109	99.8	28.2	4.1
2025	7,793	2,176	107	99.8	27.9	4.0
2026	8,031	2,213	103	99.9	27.5	4.0
2027	8,259	2,247	100	99.9	27.2	3.9
2028	8,489	2,280	95	100.0	26.9	3.9
2029	8,704	2,310	90	100.0	26.5	3.8
2030	8,896	2,334	85	100.0	26.2	3.6
2031	9,050	2,350	83	100.1	26.0	3.5
2032	9,172	2,358	81	100.1	25.7	3.5
2033	9,280	2,362	79	100.2	25.5	3.4
2034	9,381	2,363	78	100.2	25.2	3.4
2035	9,479	2,363	76	100.3	25.0	3.3
2040	9,801	2,320	72	100.4	23.8	2.9
2045	10,058	2,254	70	100.3	22.5	2.7
2050	10,346	2,187	64	100.3	21.2	2.4
2055	10,591	2,099	60	100.3	19.9	2.2
2060	10,895	2,018	52	100.3	18.6	2.0
2065	11,080	1,929	46	100.4	17.5	1.9
2070	11,162	1,836	43	100.4	16.5	1.7
2075	11,269	1,750	41	100.4	15.6	1.5

* The overall projected basic OAS pension recipient rates and number of beneficiaries are on a gross basis (i.e. before application of the clawback provision). All recipient rates include benefits paid outside Canada and for this reason may exceed 100%.

APPENDIX 4

CBC News

Last Updated: Tuesday, October 2, 2007 | 1:43 PM ET

1 million Canadians victims of investment fraud: study

More than one million Canadians have lost money to some kind of investment fraud but most victims didn't report it, a survey done on behalf of the country's market regulators suggests.
The survey - done for the Canadian Securities Administrators - found that almost five per cent of adult Canadians have fallen victim to an investment scam and almost 20 per cent know a family friend or a family member who has been taken for a financial ride. Many frauds are not the work of complete strangers, it found. About half of the victims were introduced to the fraud through some existing relationship of trust, like a family member, co-worker, friend, or neighbour.

The survey also found that fraud artists stand a very good chance of getting away with their crimes because the vast majority aren't even reported to authorities. Fewer than one in four (24 per cent) of those who'd been victimized reported the crime, citing embarrassment, lack of proof, or because they hadn't lost much money. Among the minority who actually reported their victimization, most were not happy with the way their complaints were handled. The survey said much of that dissatisfaction was rooted in a feeling that authorities didn't take action. About three-quarters of those who said they'd lost money through fraud said they didn't recover any of their losses. Most Canadians surveyed (about seven in 10) feel that fraudsters get away with their crimes. A similar percentage also believed that even if the con artists are caught, they get a light sentence.

Frauds not taken as seriously as other crimes

Canadians by an overwhelming margin (nine in 10) agree that the impact of investment fraud can be as severe as the impact of an assault or robbery. But half of those surveyed said authorities don't treat fraud as seriously as other crimes. The study outlined the financial costs of fraud, with almost a third of victims saying it had an extreme or significant impact on their personal finances. But the impact went far beyond dollars. Victims reported high incidences of stress, anger, and depression - especially among those who lost more than $10,000 - and their trust in the markets and in people in general had been severely compromised. Who tends to be a victim of investment fraud? The survey found that having certain attitudes increased one's likelihood that they will fall victim to a fraudster, such as:

- Not trusting investment professionals.
- Believing that it's necessary to "'bend the rules" to get ahead.
- Thinking that all investing is really like gambling.

The study found that 4.51 per cent of the people who participated had been victimized. The study's authors extrapolated that prevalence to 1,014,750 adult victims in Canada. People in British Columbia were most likely to fall victim to an investment scam (14 per cent), while those in Atlantic Canada were least likely (four per cent).

'No one immune'

"We want people to understand that no one is immune to investment fraud," said CSA chair Jean St-Gelais. "The study shows it is a common occurrence in the lives of many Canadians. Everyone is vulnerable and all investors can benefit by doing their homework." The prevalence of attempted fraud was also high, with almost three in 10 approached within the past three years. About of third of those approaches were through e-mail spam. The study was carried out by Innovative Research Group for the Canadian Securities Administrators - the group that represents the country's 13 provincial and territorial securities commissions. After an initial random phone survey, researchers asked 5,868 people about their investment experiences in an in-depth online study that was conducted between July 16 and July 31 this year. The results are considered accurate to within 1.28 percentage points 19 times out of 20.

APPENDIX 5

Number of members under
Registered pension plans (RPP) in Canada (as of January 1 of each stated year)
Source: Statistics Canada, CANSIM, table 280-0008.
Last modified: 2007-07-10.
http://www40.statcan.ca/l01/cst01/famil119a.htm

Numbers	2002	2003	2004	2005	2006
All members	**5,470,717**	**5,522,563**	**5,589,799**	**5,670,684**	**5,690,580**
Public sector	2,521,499	2,557,888	2,598,421	2,654,870	2,691,246
Private sector	2,949,218	2,964,675	2,991,378	3,015,814	2,999,334
Defined benefit	4,534,941	4,541,312	4,557,331	4,605,601	4,600,581
Defined contribution	796,088	835,826	876,559	885,840	893,403
Other than DB or DC	139,688	145,425	155,909	179,243	196,596

Percentages of members under
Registered pension plans (RPP) in Canada (as of January 1 of each stated year)
(derived form above table)

Numbers	2002	2003	2004	2005	2006
All members	**5,470,717**	**5,522,563**	**5,589,799**	**5,670,684**	**5,690,580**
Public sector	46%	46%	46%	47%	47%
Private sector	54%	54%	54%	53%	53%
Defined benefit	83%	82%	82%	81%	81%
Defined contribution	15%	15%	16%	16%	16%
Other than DB or DC	3%	3%	3%	3%	3%

Appendix 6

Effect of the proposed CPP/QPP vertical expansion on the CP/QPP contribution rate

Consistent with the CPP/QPP full cost rate of 5.5% reported on page 117 (reproduced on next page) of the 21st CPP actuarial report as at 31 December 2003, the proposed CPP/QPP vertical expansion would double the current CPP/QPP contribution rate by bringing it to 19.8%, i.e. the sum of:

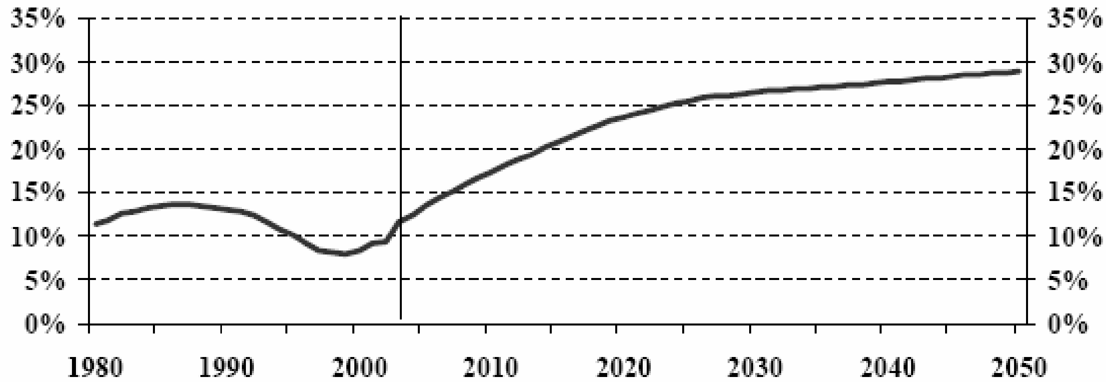
- the existing 9.9% contribution rate for the current 25% benefit rate, plus
- an extra 9.9% contribution rate for the extra 45% (i.e. 70% minus 25%) benefit rate.

The extra 9.9% contribution rate is obtained by multiplying the extra 45% benefit rate by the ratio of 5.5% (i.e. the full cost rate of the existing CPP with its 25% benefit rate) over 25% (benefit rate of the existing CPP).

Consistent with the full funding prescription, under the proposed scenario of CPP/QPP vertical expansion,

- The CPP/QPP contribution rate would be increased immediately to 19.8% in respect all current and future contributors; and
- The additional CPP/QPP 45% benefit rate would apply immediately to all current CPP/QPP contributors **but** the adjusted average pensionable earnings to which the 45% benefit rate would apply would be set equal to zero for each year preceding the effective date of change of the CPP/QPP. This way, the 45% benefit rate would be actually achieved in full for the first time only when the cohort of contributors aged 18 on the effective date of change of the CPP/QPP would reach age 65.

Chart 16 Funding Ratio
(9.9% contribution rate for 2007+)



The normal actuarial cost represents the value of future benefits earned in a year. The normal cost for 2004 was calculated as $15.8 billion or 5.5% of projected 2004 contributory earnings. Other things being equal, the normal cost is expected to grow to 5.6% by 2030 as the average age of CPP participants is expected to increase over that period. For 2030 and thereafter, the normal cost is expected to remain relatively stable at that level until the end of the projection period. The difference between the legislated contribution rate of 9.9% and the normal cost is used to significantly increase the funding level of the Plan from 12% in 2003 to about 25% by 2025. Again, these results confirm that the current financial status of the Plan is projected to improve significantly over the next 50 years.

One way to understand the effect of the 1998 amendments on the CPP financial status is to look at the past and projected evolution of assets and liabilities using the best-estimate assumptions presented in this report. The historical and projected annual growth rates of assets and liabilities are presented in Chart 17.

Chart 17 Annual Growth Rates of Assets and Liabilities