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Chair

The Honourable Wayne Easter

Standing Committee on Finance

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● (1205)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Welcome, Minister and deputy.

Pursuant to Standing Order 108(2), we're doing a study on the Canada Pension Plan agreement. The minister and deputy will be on for the first hour, and then Department of Finance officials will be here for the next hour.

Minister, the floor is yours. Welcome, and thank you for coming.

Hon. Bill Morneau (Minister of Finance): Thank you very much.

[*Translation*]

Thank you, Mr. Chair and members of the committee.

I'm pleased to be here to talk to you about our historic agreement to strengthen Canada's pension plan. This agreement that will not only help Canadians save more for retirement, but will grow the economy.

As my colleagues will know, ensuring retirement security was a key part of the fundamental promise we made Canadians a year ago. A promise to help the middle class and those working hard to join it.

[*English*]

A year ago we committed to help Canadians reach their dream of a secure retirement. Not only did we keep that promise, but I couldn't be more proud of the way in which we did it. When my finance minister colleagues and I first started these talks last December, I felt that we had a real opportunity to seize on a renewed spirit of collaboration to get things done. This is, after all, one of the reasons I chose public life.

As we met for the first time, just up the street from here at the finance building, there were different views around the table, to be sure, but there was an undeniable feeling that everyone came to the table with the best interests of the people we serve at heart. It was that spirit of collaboration that won the day in Vancouver this past June. I'd like to think it was federalism at its best.

Of course, the House had risen for the summer when we concluded that deal, so it gives me great pleasure today to be here, on the very first day we're back together, to tell you more about our plan to strengthen the Canada Pension Plan and to answer any questions you might have. The officials here today have agreed to stay an extra hour to walk through any details you might want to talk about. I appreciate their work and their detailed analysis, which has guided us throughout this entire process.

Part of that analysis was first answering what we saw as a critically important question: do we need a stronger Canada Pension Plan? In our view, the answer is unequivocally yes, and here's why.

We know that middle-class Canadians are working harder than ever, and many are worried that they won't have enough set aside for their eventual retirement. That feeling was palpable as we all knocked on doors, held town halls, and talked to people as part of our work.

We also know that young Canadians in particular are facing the challenge of securing adequate retirement savings at a time when fewer can expect to work in jobs that will include a workplace pension plan. In my former line of work, I talked to students who invariably didn't place much importance on a solid pension plan when they were looking for their first job. It's either not on their radar screen or it's no longer a reasonable expectation that they hold, but I can tell you that this perception changes over time. That's why achieving a safe, secure, and dignified retirement is without a doubt among the most significant long-term goals for hard-working Canadians.

Our analysis shows that one-quarter of families nearing retirement —1.1 million Canadian families—currently face a drop in their standard of living when they retire.

It's no wonder Canadians want a stronger Canada Pension Plan. An independent, self-commissioned poll by the Angus Reid Institute in June found that three-quarters of Canadians support an expansion of the Canada Pension Plan, so we as a government have set out to help hard-working Canadians. Helping them achieve a secure retirement is one of our very highest priorities.

That's why. Now I'd like to tell you a little bit about how we intend on doing this.

The agreed-upon Canada Pension Plan enhancement will not only mean more money for Canadians when they retire; it will also mean a stronger economy and more middle-class jobs. To fund these enhanced benefits, annual CPP contributions will increase modestly over seven years, starting in 2019.

[*Translation*]

To fund these enhanced benefits, annual CPP contributions will increase modestly over seven years, starting in 2019. For most, it will represent about a 1 percentage point increase in contributions, and these will be phased-in gradually.

For example, someone who makes about $55,000 a year will contribute about an additional $6 a month in 2019.

By the end of the phase-in period, contributions for this person would be about an additional $43 per month—roughly $20 per paycheque. This small increase in contributions would provide a significant increase in retirement income. Under the enhancement, this worker would receive about $17,500 a year in CPP retirement benefits, about $4,400 more than under the status quo.

Our government is ensuring as smooth a transition as possible by providing tax deductibility for new employee contributions, meaning that tax savings to Canadians from the enhanced CPP will total $710 million. We are also providing more help for low-income workers through the Working Income Tax Benefit (WITB), an investment of $260 million. Taken together, these measures will account for $970 million in federal fiscal support in 2021-22.

● (1210)

[*English*]

This fiscal support will be partially offset over the long term by an increase in tax revenue due to increased Canada Pension Plan benefits, but the real impact of a stronger Canada Pension Plan will be felt over the long term. That's because Canadian retirees will have more money to spend on their needs, such as healthy food, transportation, and housing, which will lead to greater confidence and more jobs, and will create the conditions for overall economic growth in Canada.

As you may know, once fully in place, the CPP enhancement will increase the maximum Canada Pension Plan retirement benefit by about 50%. The current maximum benefit is $13,110. In 2016 terms, the enhanced CPP represents an increase of nearly $7,000, to a maximum benefit of nearly $20,000. Young Canadians who are just entering the workforce and who are facing the greatest challenge going forward will see the largest increase in benefits.

Here's how it'll work.

Right now, the CPP replaces only a quarter of Canadians' average annual earnings upon retirement. That means if you're, say, a welder making $55,000 or $50,000 per year over your working life, you'll get a quarter of that per year over your retirement, or, in the case of that $50,000-a-year worker, about $12,000. There's also currently a limit of about $55,000 at which this quarter share maxes out. If you make more than $55,000 a year, you'll still get only a quarter of $55,000.

The enhancement that Canada's governments have agreed to does two things that will see Canadians receive more through the CPP in retirement.

First, it will increase the share of your annual earnings that you'll get in retirement from one-quarter to one-third. If you're like our welder friend making $50,000 a year over your working life, you'll receive about $16,000 per year in retirement instead of today's $12,000.

Second, it will increase the point at which this new one-third replacement rate maxes out by about 14%, which is projected to be equal to $82,700 in 2025. If you are, say, a commercial pilot making $80,000 per year over your working life, in retirement you'll get a third of that per year from the CPP. This means that you'll get 50% more benefits from the CPP in your pocket every year for the rest of your life.

It means for Canadians more time with their grandkids and less time worrying about the rent. It means buying healthier food, getting out more, or maybe joining a gym. It means more jobs and economic activity all around us, and we think that's a good thing.

Before I take your questions, I want to tell you a bit more about what I want to accomplish as finance minister. When I look at Canada's future, I see promise, I see opportunity, and I see growth, but when I look around me, I see too many Canadians who are worried and are struggling to make ends meet.

I mentioned earlier that 1.1 million families approaching retirement can't be sure that they can retire in dignity. It's clear from this statistic alone that creating economic growth won't be enough if it's concentrated in the hands of a few. That's now commonly understood around the world, not least around the G20 table where I was just a little while ago. In many respects, our government was ahead of the curve.

● (1215)

[*Translation*]

In our first year we cut taxes for 9 million Canadians, introduced the Canada Child Benefit, increased student grants, and increased monthly payments for the most vulnerable seniors.

We've also begun making unprecedented investments to strengthen the heart of the Canadian economy; investments that will help the middle class grow and prosper today, while delivering economic growth for years to come.

The agreement-in-principle we struck with the provinces is part of this broader goal.

[*English*]

I'm personally very proud of this agreement, and I'm grateful that my provincial colleagues and so many of us across all parties share this view. We're investing in a brighter future for our children and our grandchildren.

I'd like to thank you for your time today.

[*Translation*]

Thank you for your attention.

[*English*]

I'd be happy to answer any questions that might come from the floor, Mr. Chair.

The Chair: Thank you very much, Mr. Minister.

We will go to five-minute rounds rather than the normal seven-minute rounds. That way we can get everybody on, as everybody would love the opportunity to ask a question.

Mr. MacKinnon, you are first.

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

Thank you for your presentation, Mr. Minister.

On behalf of my colleagues on this side of the table, I would like first to congratulate you for bringing all the provinces together to reach a national agreement which, if I understand correctly, includes improvements for Quebec. Those improvements should be announced within a few months. This national announcement will ensure that the lack of savings and the reduction in the registered plan and pensions will be offset by the enhancement of the Canada Pension Plan.

Can you please tell us how, together with your provincial and territorial colleagues, you were able to strike deal in such a short time?

Hon. Bill Morneau: Thank you very much for your question.

As you know, retirement has been a matter of concern for several years now in Canada. It was difficult to decide how to improve the situation for Canadians. We know that company pension plans are not as common as in the past. That is one of the reasons we began our campaign over a year ago. We wanted to tell Canadians that the Canada Pension Plan had to be improved.

In December, I began discussions with my provincial colleagues in order to determine how we could improve things. We had good, open discussions. Everyone agreed that we have to find a way to improve the situation.

After a few months and some important analysis by our department and the provinces, we concluded that we had to find a way forward. With the provinces, we decided that a significant increase would be needed in the future, but that the changes had to be made gradually. That was important to us and of course to the provinces. We had to make sure that the change would not be too radical for small and medium-sized enterprises, that it was implemented gradually, and that it would benefit people in the future.

It wasn't easy, but it is an important issue and I am pleased that we have found a way forward.

● (1220)

Mr. Steven MacKinnon: I expect that my colleagues on the other side of the table will object loudly, pointing to the tax increase. We must remember though that, if we had pursued that line of thinking, the Canada Pension Plan would never have been created in the 1960s. The same can be said about the 1990s, when former Prime Minister Paul Martin, one of your predecessors, decided to strengthen the Canada Pension Plan.

I was relieved and even pleasantly surprised to see that the very short-term impact on jobs and growth was negligible and that the medium and long-term impact would be positive and beneficial.

Can you comment on those impacts? As you did during your presentation, can you tell us about the medium and long-term economic impact of these new measures on jobs and growth?

Hon. Bill Morneau: Yes, of course. That is very important.

We know that when a retirement system is not favourable for the vast majority of Canadians, confidence in the future is not high enough. Families and Canadians who do not have enough money to retire in dignity certainly do not have a degree of security that is beneficial to the economy. Confidence in the future must be high enough to foster a strong economy.

For the long term, we know that we need a good retirement system and that people have to be confident. We are very proud to have found a path that will be good for the economy and at the same time help families improve their financial situation.

So I have a great deal of confidence that our economy will grow and create good jobs. At the same time, we can improve our pension plan to help people retire in dignity.

[*English*]

The Chair: Thank you, Mr. MacKinnon and Mr. Minister.

Ms. Raitt is next.

Hon. Lisa Raitt (Milton, CPC): Thank you very much for coming today. I appreciate it.

As you can probably guess, I'm going to ask you some questions about the book you wrote in 2012 called *The Real Retirement*, because it became a touchstone in terms of understanding what we face in the future regarding retirement for Canadians. I would submit to you, Minister, that there is a big difference between what you wrote in 2012 and what you're telling us here today.

You gave us four reasons for why it was necessary to make these changes to the CPP. One of them is that there's a feeling in the country that people haven't set aside enough money and that young people are not saving. You also said that one-quarter of Canadians face a significant drop in their lifestyle, according to an Angus Reid poll.

I want to start with the Angus Reid poll, Mr. Minister, just to point out that about their polling results, Angus Reid indicated that “the general public seems not to be paying close attention to the process. Fully one-in-three...say they 'haven't seen or heard anything' about CPP expansion”. This was around the time when you said that was the motivation and, again, why you thought you had the approval of the Canadian public to do this. They go on to say that “roughly the same number (35%) report that they're following news coverage or chatting with friends about it.” This is what Angus Reid said about those numbers: “This latter total is significantly lower than most issues about which ARI asks this question.”

Therefore clearly, Minister, the reality is that Canadians certainly didn't understand what you were proposing as motivation for the changes to CPP.

Minister, you said a couple of things in *The Real Retirement* when you were asked about the Ontario Liberal Party suggestion to expand CPP. Your quote was “we would be putting too many eggs in one basket”. You commended the former Harper government for increasing and putting in place the TFSA. You said, on retirement age, that if we were to retire three years later than we do now, “any concerns about having adequate retirement income would practically vanish.”You said, “It would also alleviate any shortages in the workforce due to the aging population.” Finally, you also indicated as well, Minister, in your book, that “the Dickensian image of poverty is virtually non-existent in Canada today.”

Minister, if your feeling in 2012 and your expert advice in 2012-13 were that people will have enough to set aside, that TFSAs are a good way for young people to save, that the Angus Reid Institute actually doesn't say what you contend, that the Canadian population does believe this is a good thing—because, frankly, they don't know about it—and, finally, that one-quarter of Canadian families face a significant drop in lifestyle, then I would say that when you already said concerns about having retirement income would practically vanish if we were to retire three years earlier, why did you roll back the amount we can put into our TFSAs? Why did you change the retirement age? Why did you do CPP expansion when it's completely counterintuitive to everything you wrote as the plan for us to be able to be self-sufficient and indeed prosperous going into the future?

● (1225)

Hon. Bill Morneau: Thank you. That was a long question.

Hon. Lisa Raitt: Yes. I expected a long answer, Minister, to be honest, so I thought I'd get it all in.

Hon. Bill Morneau: First of all, I owe you a note of thanks. I think you were part of the team that decided we should be talking about this today, and I want to say on this very first day back in the House this fall that I couldn't be happier than to be talking about how we are expanding the Canada Pension Plan for Canadians.

We made a promise to Canadians that we would work to enhance the Canada Pension Plan. We made a promise to Canadians that we would work in collaboration with the provinces to come to a solution that could make a real and measurable difference in their lives over the long term so that we could help them to retire in dignity, and we were very pleased to be able to work together with the provinces to get to an answer that, over the long term, could really do something that we know needs to be done.

I'll take you back to some of the key issues and challenges here. A significant number of Canadians, 1.1 million Canadian families, are not saving enough right now to have the same level of income or the same standard of living when they retire as they have today. This is just a challenge that we face as a nation. We know the system we put in place over the last two generations, in which workplace pensions would help many Canadians, is no longer functioning in the way that it has historically. More and more organizations are winding up defined benefit plans and fewer and fewer Canadians are actually in those programs, so there is a real challenge facing Canadian families. We know that the way to solve this is to figure out how we can enhance the Canada Pension Plan, the most effective savings vehicle that Canadians can have, in a way that would not only help the economy over the long term but also ensure that people have a way to save that puts them in a much stronger position.

The agreement we have come to will actually be an improvement for one-quarter of those Canadians who are facing that challenging situation, and it will do so in a way that will enable the economy to grow and enable us to create jobs along the way. We believe it is absolutely one of the key cornerstones of what we have done so far in our work for Canadians, and we are very proud to be moving forward this fall in putting it into legislation.

Hon. Lisa Raitt: Thank you, Minister.

The Chair: Thank you.

Sorry; between you both, you ran the clock out of time.

Mr. Duvall is next.

Mr. Scott Duvall (Hamilton Mountain, NDP): Thank you very much.

Thank you, Mr. Minister, for coming today. I really appreciate it and the update you gave us.

There are many concerns across Canada on how this plan will be implemented going into the future. We've heard a lot of rumours, but now you're here today to try to put some of those rumours to bed.

As you know, seven out of 10 working Canadians have no workplace pension. We see the value of doing something for an enhancement, especially with the Canada Pension Plan, but when I look at what is being proposed here, it certainly does not go far enough, and I'll tell you why: under this plan, you would have to begin at the age of about 16 years to get the maximum benefits when you retire. Not until 2025 will you be fully due it, so you'd have to work about 40 years to get the maximum benefit.

The problem with the maximum benefit is that we're talking about maximum costs and income, but many people on average do not get the maximum benefit even now. People are getting an average of about $684. We keep talking about $16,000 when that's not even close to it. The reason is that many factories have closed down, pensions have wound up, and layoffs have occurred. People have nothing else to go to but precarious jobs or part-time jobs, which pay little and require premiums to get any kind of maximum benefit.

My question to you is this. This may be a great thing for our grandchildren and our children who are starting out to work, but we need to know what will happen to the people who are near retirement now and will face those problems. Where's the benefit for them, and how will this increase? In Hamilton it has hit us dearly, especially with the manufacturing jobs that have broken down and the number of jobs out there that are paying people a third to half their wage.

I've been listening to people out there, when I've gone door to door in Hamilton, and many of them think, with the way this has been promoted, that there's an increase coming for them under the Canada Pension Plan. They're already retired. I'm not sure where the information on that is coming from. How are we going to do that? We need a clear breakdown from the government on who will benefit the most, who will benefit the least, how these changes will interact with other programs, and how we will strengthen workplace pension plans.

Perhaps you could start from there.

● (1230)

Hon. Bill Morneau: Thank you.

I think it's important to address the challenges you're presenting. It's certainly the case that many Canadians are finding themselves in challenging situations, both during the course of their working lives and as they face the prospect of retirement.

Our approach has been, first and foremost, to work to improve the situation of middle-class Canadians and those trying to get into the middle class by taking some really important first steps. Reducing taxes for nine million middle-class Canadians we see as an important step in putting more money in people's pockets. The enhancement of the way we deal with child benefits helps many families—nine out of ten families with children—with the new Canada child benefit. We've taken some important steps during people's working lives.

We also recognize that there continue to be Canadians who are retired who are living in very difficult situations. While we've made progress over the last couple of generations in reducing the number of impoverished seniors, we still have people who are living in difficult situations. Our decision to increase the guaranteed income supplement, a top-up, helps hundreds of thousands of seniors living in difficult situations with up to $947 per year in additional funds. The decision to move the old age security age from 67 to where it had been, at 65, helps in particular those Canadians who are earning under the cut-off point at which OAS is clawed back, so it helps Canadians in more vulnerable situations.

With respect to the CPP enhancement, we recognize that this is something about the future. We are trying to ensure that our retirement system stays one of the most respected systems on the globe by ensuring that it remains fully funded. This enhancement that we've negotiated with the provinces will be fully funded. It will allow for no intergenerational transfers from one generation to the other by having the people who will get the benefit be the ones who put the money into it. Anybody who does put money into it will get some return from it, but as you correctly pointed out, the maximum return will be for those people who are in it for their entire career.

Our view is that we need to work on the short term by improving people's lives and on the longer term by making investments in the economy, investments in infrastructure, and investments in creating a more innovative and productive economy, and by trying to help people ensure that they save appropriately so they can have a secure and dignified retirement, which is what this is intended to do.

The Chair: Thank you very much.

Go ahead, Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thank you, Minister, for being here today.

I want to continue with the line of questioning and the thought that we just finished on. I think we've all heard in our constituencies the stories of seniors choosing between medication or food, and how heartbreaking it is. You've already mentioned the GIS top-up. I see this as a vision towards the future, so that we don't get into a situation of future generations of seniors also needing a GIS top-up or getting into a situation in which they're struggling, because we're looking to the future and seeing where there are gaps and holes.

When I look at my own generation and my friends entering the workforce now and at what retirement means, I see you were right in your opening comments, in that we're not thinking about retirement. We're not thinking about that long-term planning. If you don't have an employer who is doing that for you with a pension plan, it's not top of mind. You and I both come from Ontario, where this was certainly a significant issue for the provincial election. Also, there's the issue of housing in certain regions. I look at future generations not having the same housing opportunities that maybe my parents had, for example.

Can you speak a bit in terms of how this works in Ontario, given that the provincial government attempted to work on a partnership with the former government? They decided to go it alone anyway because it was so critical in Ontario. With this new negotiation and collaboration with the provinces, what does this mean in Ontario in terms of their vision and what they want to do now by having a more national approach?

● (1235)

Hon. Bill Morneau: Thank you.

I think perhaps the best way to address your comments and questions is to give a sense of the consensus that we had in June when we got together with our provincial counterparts. We had clearly a number of provinces that had continued working on a potential Canada Pension Plan enhancement for a number of years. This is not a new discussion. Canadians have recognized for a long time that with the changing nature of work, with the increased longevity of all of us, which is positive, and with the lower interest rate environment we're in right now, retirement security is more at risk than it has been in previous generations.

Ontario, as one of those provinces, put forward an approach to deal with retirement security in Ontario, but they were very open to a national solution, as the other provinces were. Their view, as well as that of the other provinces around the table, and our view was that one of the strengths we have in Canada in our retirement system is that it's a national system. It's a system whereby employers are able to move people around the country without having to deal with different situations in different provinces but with a situation where there's a sense of the common good, which is finding a retirement system that can work for everyone.

It was in that spirit of consensus that we set out to come to an answer. Ontario had an approach that was different from what we came up with, but we were able to use their ideas and to bring forward ideas from other provinces. We had very helpful interventions from many provinces to get to an answer that we think is going to be positive for, as you say, the generation of Canadians that's coming next, and that is the generation of Canadians who are less likely to have a workforce pension plan, who are more likely to be living in a lower interest rate environment, and who are more likely to have a larger number of jobs with different retirement situations in those different jobs.

We feel that we've improved the situation for Canadians in the future. We are confident that the way we've done it, which is a very gradual introduction to the program, starting in 2019 and increasing it over a seven-year period, is an approach that will allow our economy to continue to be strong. We have a win-win. It will be better for people in the long run and it will allow our economy to be strong in the short and the medium term.

The Chair: Thank you. You're out of time as well.

Mr. McColeman is next, and then Mr. Sorbara.

Mr. Phil McColeman (Brantford—Brant, CPC): I'm glad you referred to the name “Wynne”, because let me tell you about my Ontario perspective as a small business owner employing about 20 people for 25 years.

Over the business round tables that we held this summer, this was one of the most significant issues in their minds. At the Senate committee, Jack Mintz said that what really is happening now is that there's a movement afoot to try to kill off the Ontario retirement pension plan, the ORPP. Supporting that argument in, I suppose, a very different way, the premier herself came out after your meetings and stated unequivocally that she was the person who drove the agenda, she was the one everyone could thank, and she was the one who set the very aggressive timetable in terms of meeting deadlines that even the Province of British Columbia said are unrealistic.

A very different view has been given from the business side, Minister. Do you think you've done a good job of informing Canadians generally about the major impacts this will have? I notice that something that just came out from the ministry this morning says that this plan will have a very negative impact on business in the initial stages. Is that correct?

● (1240)

Hon. Bill Morneau: Thanks for your question. I think I'd like to start by saying that we had a very positive spirit around the table in June. We came to a conclusion that's historic. We collaborated—provinces and the federal government around the table—to get to a solution that's going to help hundreds of thousands of Canadians to retire in dignity.

We know that this is a very important issue for Canadians as they determine how they're going to set up their financial affairs during the course of their lives. It's a worry for so many people that they won't have the capability to retire in dignity, and I think we can be proud of the fact that we have improved the situation of those Canadians in the future.

Mr. Phil McColeman: A recent Ipsos poll said that 40% of current seniors or people who are just about to go into retirement believe that they are going to be the recipients of some of these benefits. That's the kind of communication disconnect that's happened in this country. It's being portrayed as though these are CPP benefits and everyone is going to be benefiting, not just the people who are just starting in the workforce, who will be able to accumulate it through their lifetimes.

Again, I'm going to say that all the research Ontario did suggests that in this very sluggish economy we have currently, now is not the time to introduce something like this, because it's going to affect businesses, small businesses especially, which will have to decide whether they're going to be giving their employees increases, or will be able to give them increases, or in some cases will even have to let people go because of the increased benefits.

I know you say that the numbers are modest, but when you compare them to the child benefit program that your government instituted, which, you told the country, was one of the biggest things that could ever happen, they're half the numbers of what you say are modest increases to CPP.

Hon. Bill Morneau: Again, we are so proud of the fact that we were able to collaborate with provinces to get to an answer that's going to improve people's retirement incomes. We're also very cognizant of the fact that it's important to do this in a way that allows our economy to continue to thrive, and that is exactly why we put in an approach to this program that allows businesses and individuals to adjust over a period of time.

I'll remind you that it starts in 2019. In 2019, the amount that a company will be putting aside for an employee on a monthly basis is $6. We know that money is going into that employee's savings. We also know that it will end up giving that same employee $4,000 more in retirement income over the long run.

We believe this is the responsible thing for us to do. We know that the timing over nine years will entirely enable individuals and companies to adjust, and the outcome we'll get is hundreds of thousands of Canadians able to retire in dignity because they have a more secure situation than they had previously.

The Chair: Thanks to both of you.

Go ahead, Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Good afternoon, everyone.

Minister, I applaud you for reaching a consensus with provincial colleagues on an agreement to expand the CPP. Well done. Millions of Canadians in the future will look back at this and say it was a momentous day, as I do today.

You commented on a couple of things. I actually share this passion for pensions. I led a pension study for a major rating agency in Toronto and did some work on this on the panel for the accounting body here in Canada as well, so I understand your comments about lower interest rates and what they have done to defined benefit plans and how lowering rates makes the present value of those liabilities much higher than it was in past years. I also understand winding up or closing defined benefit plans for new employees or closing the plans altogether.

Of the three pillars that exist in Canada, one is not as strong as it once was. Expansion of the CPP makes business sense, makes fundamental sense, and, most importantly, makes sense for middle-class Canadians and those Canadians at home whose children will be entering the workforce in future generations. I tie that back to my children, who at one stage won't be entering the workforce because the nature of work will have changed for them. There will be much less work, and one of the key aspects of the CPP is its portability.

The one aspect I'd really like you to comment on is the gradual implementation of the CPP and how that, part and parcel, will not have a negative effect on the economy, in that it will allow Canadians to adjust and in the longer term will actually have a positive effect on both employment and long-term GDP growth. It's that long-term thinking that our government has stated we will do for Canadians. This agreement you have reached, for which I applaud you again, is a signature event of which we should be proud.

Thank you.

● (1245)

Hon. Bill Morneau: Thank you very much for that question.

We recognize that the perspective Canadians need to have in order to make confident decisions for their families is a sense of security in the long term. We know that confidence among individuals and among businesses is critically important. For individuals, it means confidence that they are going to be able to retire in future; for businesses, it is confidence that their employees are going to be able to continue working for them and won't seek other employment because they are concerned about their long-term futures.

Putting in place a pension plan, an enhancement to the Canada Pension Plan that can make a real difference for individuals over the long term, was our goal, and doing that, we recognize, is very much a long-term goal. We're doing something today that we can be proud of because we're really focusing on how we can help the next generation and the generations after that. We're making a long-term decision that goes past any electoral cycle, and we're doing it in a way that helps those people who are coming after us in much the same way that people in the 1960s put the Canada Pension Plan into place and improved the old age security and the guaranteed income supplement and did something that over the long term would significantly change poverty among the elderly. That is the perspective.

On your question regarding how to put that into place, we worked with the provinces. We spoke to the provinces about their individual financial situations. We worked to make sure we could put this into place in a way that would not in any way jeopardize businesses across the country, because we want to ensure there is confidence among business owners, large and small, and because we recognize provincial and national economic challenges. By starting in 2019 and by doing this over a seven-year period, we know people will be able to enhance their contribution gradually and in a way that's entirely manageable, which will allow them to have significantly more savings than when they started and to face a retirement that will be much more secure.

The Chair: You can ask a very quick question, Francesco. You have 30 seconds.

Mr. Francesco Sorbara: That's tough sometimes.

More on the technical side, I was really happy to see the increase to the working income tax benefit for low-income Canadians so that their retirement income will not be impacted. If you want to elaborate on that, that would be great.

Hon. Bill Morneau: One thing we want to ensure as we put in the new enhancement to the Canada Pension Plan is that it will help Canadians across all spectra of earnings ranges. We want to ensure that people in the low-income range don't put more money into the Canada Pension Plan and not get the benefit afterwards because their income is too low. By putting in place an approach to increase the working income tax benefit, we ensure that lower-income Canadians are as well off as, or better off than, they would have been before this plan. We don't want to have an outcome that would in any way put them in a more difficult situation.

This new enhancement will be positive for those Canadians who are now at a low income and then earn more during the course of their lives. For those who stay in a low-income situation over the long term, the working income tax benefit will make sure they are not in any way disadvantaged by this change.

● (1250)

The Chair: Thank you both.

Mr. Liepert is next, and then Mr. Ouellette.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you, Minister.

We've heard a lot of words, but I'd like to focus on numbers a bit.

In the past year you've certainly been quite vocal about the middle-income tax cut, which works out to about $1 per day. If my numbers are correct, this tax increase to the CPP is considerably higher than that. In fact, if my numbers are correct, if someone earns about $30,000 a year, they would pay about an extra $500 a year in CPP premiums but would receive no middle-income tax reduction.

You mentioned a government promise, but there was also a promise in the last election campaign to reduce the small business tax by 1%, if I recall. That was reneged on, and now you've added a small business tax in the way of CPP employer contributions.

I'd just like to get your response. Are my numbers correct? If they're not, please correct me, because I want to work from facts, but I haven't seen anything that shows those numbers as being incorrect.

Hon. Bill Morneau: Let me start by saying that an enhancement to the Canada Pension Plan is savings. There is nothing about a tax here. This is money that's being put aside into the Canada Pension Plan to enhance people's eventual retirement outcome. That $30,000-a-year person you're talking about will have, after this is fully in place, an extra $2,400 per year of retirement income, assuming their earnings stay constant, and they will have an after-tax increase in their contribution to their pension, again once this measure is fully mature, of $8 on a biweekly basis. Those are some numbers for you to keep in your head: $8 on a biweekly basis after tax for that $30,000-a-year person, and an additional $2,400 annually in terms of the amount of money they'll receive from the Canada Pension Plan.

With respect to the things we've done this year, I will tell you that we have moved forward on an agenda that's trying to help middle-class Canadians and trying to help Canadians who are struggling to get by. The reduction in taxes impacts nine million Canadians, putting them in a better situation, but it doesn't impact every Canadian. For some of those lower-income Canadians, especially families, the Canada child benefit will make a very material difference. If that $30,000-a-year person had one child, that person would get $6,400 after tax from the Canada child benefit. I think you can work out how much of a significant benefit that is for that person in that situation.

We recognize that to make a difference, to bring in what we call inclusive growth, to help middle-class families, will involve multiple things. It's going to involve helping people in the short term with a tax reduction. It's going to involve helping families in the short and medium term with an enhanced Canada child benefit. It's going to involve helping people in the long term to know that they're going to have the savings they require to eventually retire in dignity.

Along with that, we're going to be focused on how we can make investments to grow the economy so that we can also improve their situations through enhanced work opportunities in the long term.

● (1255)

Mr. Ron Liepert: I know you mentioned that you concurred with one of your colleagues on a question on working with the Ontario government. Certainly in Alberta everything I've heard from the socialist government and the labour unions is advocating for this move, but I haven't heard anyone in small business advocating for this move, so I'd like to know who you're talking to. Specifically, have you met with the CFIB on this issue? I haven't found anyone in Alberta who's prepared to support this initiative, outside of the NDP and the big unions.

Hon. Bill Morneau: We believe this historic agreement will be met with continued appreciation across this country. We've found that Canadians are strongly supportive. We've found that business people are supportive. We can say that the Ontario Chamber of Commerce said that they were encouraged by the finance minister's decision to move ahead with national pension reform. We can say that the Canadian Life and Health Insurance Association “welcomes Canada's Finance Ministers' commitment to moving forward with addressing the gaps in retirement savings by Canadians”. We can tell you that we are seeing support across the country for what we know is a long-term improvement in Canadians' retirement outcomes and, better yet, it is being done in a gradual way that assures that our economy can continue to be strong.

The Chair: Thank you, Minister.

Mr. Ouellette is next.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, Minister and Deputy Minister, for coming.

Just offhand, my favourite childhood fable was the grasshopper and the ant. I read it to my kids all the time. It's important to think about saving for the future.

When Manitoba signed the agreement, they raised the issue of the death benefit. Funerals are really expensive. Could you describe in a bit more detail if there are any ongoing negotiations about that benefit, and if there's the possibility of an increase?

Hon. Bill Morneau: Thank you.

We had a full discussion around the table in June with the provinces about the best way forward in enhancing the Canada Pension Plan. I will say that Manitoba was a constructive voice at the table. They were a new government, in place only for a very short time period. They said they needed a little more time around that table in order to make sure that they could consider the impact. I was very pleased that not that long after our agreement, they came and said, yes, they were supportive of the Canada Pension Plan enhancement, which was a very positive outcome.

They also pointed out a number of things they thought we should look at. As you know, the approach to managing the Canada Pension Plan is one in which we work together with the provinces. There's a triennial review of the plan, which is coming up this December. They proposed that we look at several possibilities for improving the plan in order to best meet the needs of Canadians in retirement, and one of those was to look at this particular measure. We agreed that we would do the analysis, which the finance department is currently doing, in order to have a discussion about whether that is an appropriate thing for us to consider.

We will look at those ideas from Manitoba as well as any other ideas that come forward, because our ongoing imperative is to ensure that this plan is successful for Canadians. By that we mean that it provides the benefits Canadians need and does so in a way that ensures we maintain a program that's funded for the long term, as it is today, so that we can protect people from retirement challenges.

We look forward to that discussion in December. We're not doing this on our own but in collaboration with the provinces, and we'll see where we get to on that particular question.

The Chair: Go ahead.

Mr. Robert-Falcon Ouellette: Thank you very much, Chair. I appreciate that.

I'm wondering if you could describe in a little bit more detail the working income tax benefit and the benefits for low-income Canadians, as well as some of the investments that will be made for low-income Canadians and how those investments will offset some of the potential costs of this increase for low-income Canadians.

Hon. Bill Morneau: Thank you.

As I mentioned in my opening remarks, we intend to increase the working income tax benefit for the benefit of low-income Canadians. We have not finalized all of the details on exactly how that will work. That is something that the finance department and Paul Rochon, my deputy, are working on now.

The intent is to ensure that lower-income Canadians who have a constant low income throughout the course of their careers find themselves either no worse off or else better off through this CPP enhancement. That's what we're intending on doing. I'm confident we'll come to some details that we can release in the not-too-distant future.

● (1300)

The Chair: Thank you both.

Before you depart, Minister, with regard to the process going forward, as you're well aware, this meeting was called as a result of a motion by four members and a committee meeting. You may not be in a position to answer this question, but I've been led to believe that this will not take place through an order in council but that it will be legislation. If that's the case, then there would be the opportunity to hold hearings on the matter. We as a committee will be doing pre-budget consultations. We have this issue before us today, and there may be a request for witnesses and other hearings on this issue. If in the not-too-distant future we'll be looking at actually dealing with legislation on this specific issue, then that will be a fairly open and transparent process, I would think. Can you give us an answer yet on whether we'll be dealing with legislation?

Hon. Bill Morneau: Mr. Chair, we don't know the exact timing yet, but our intent is to introduce legislation in this session.

The Chair: With that we thank you, Minister, and we'll take a five-minute recess while we wait for officials to come to the table.

Thank you very much, Mr. Deputy and Mr. Minister.

● (1300)

(Pause)

● (1305)

The Chair: We'll come to order again.

We're still on the Canada Pension Plan. I want to thank the Department of Finance officials for coming. With us are Mr. Leswick, assistant deputy minister, economic and fiscal policy branch; Mr. Purves, general director, federal-provincial relations and social policy branch; Ms. Anderson, general director, financial sector policy branch; and Mr. Jovanovic, general director, tax policy branch.

Welcome, folks. My understanding is that you don't have a presentation and that we're going to go straight to questions.

Go ahead, Mr. Sorbara.

● (1310)

Mr. Francesco Sorbara: Thank you, Mr. Chair.

I have a couple of questions, and if we can get some clarification or a further explanation, that would be great.

In terms of the projections that were taken into account and used in modelling, perhaps you folks could give some colour on that side in terms of the long-term impact of the full implementation of the CPP. I believe the numbers do come out positive at the end. As an economist myself and someone who has used these models before, I'd like a little bit of colour around that aspect.

Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Thank you very much for the question, Mr. Chair.

In the department, we use general equilibrium modelling techniques. In short, they fully characterize the relationships between firms and households in the economy. They look at firms from the perspective of input and output—meaning things like capital, labour, and material inputs—and at households from the perspective of income and consumption.

With regard to the CPP enhancement, we're looking at the behaviour of firms as they respond to higher contributions. Likewise we're looking at the behaviour of households as they respond to wage adjustments.

From a GDP perspective, as we detailed in the backgrounder, in the short term, in years zero through 12, there would be a very modest impact. From a GDP perspective, it would be in the order of magnitude of 0.05%, which, in terms of raw nominal values, is about $1 billion on a $2.4 trillion economy. Those impacts would dissipate through to 2031 when effectively those negative impacts would turn positive. In 2031 and going forward, effectively the various positive impacts would come online. Those would be the consumption by now higher-retirement-income-earning individuals as well as increased economy-wide savings feeding through to lower interest rates and increased investments.

That's the GDP modelling in a nutshell. From an employment perspective, it's pretty much the same thing as well. The short-term impacts would dissipate over time, and then they would be overwhelmed by the more positive long-term implications after that first 12-year period.

Mr. Francesco Sorbara: Thank you for the answer, Mr. Leswick.

After the first five years of the gradual implementation take place, there's a two-year top-up period. With regard to the mechanics of the contributions of those, can you give me some granularity on the terms of the tax deductibility for the new employer CPP contributions in terms of the top-up? I believe there's some information on that.

Mr. Miodrag Jovanovic (General Director, Tax Policy Branch, Department of Finance): I'm sorry if I'm not answering correctly, but I'm not 100% sure I completely understood the question. Is it with respect to the tax treatment of the employer's contribution to the new enhanced CPP?

Mr. Francesco Sorbara: Yes.

Mr. Miodrag Jovanovic: That will be deductible in the same way the current contributions are deductible.

Mr. Francesco Sorbara: There's also the aspect of the higher CPP contributions if the employer reduces, on the RPP side.... There will be no impact. That's the explanation I was looking at.

Mr. Miodrag Jovanovic: Yes, it is possible for employers as well as for individuals, through their RRSPs, to substitute. If they're already at the point where they believe that their level of savings is adequate, they can decide to contribute less, for instance, to their RRSP or, through the employer, to the pension plan, which is also a key reason that the additional CPP contributions for the employees are made deductible.

● (1315)

Mr. Francesco Sorbara: As a final follow-up, in terms of actuarial analysis, my understanding is the CPP is actuarially sound for the next 75 years, according to the last review.

Mr. Glenn Purves (General Director, Federal-Provincial Relations and Social Policy Branch, Department of Finance): That's correct. For the core CPP, the last actuarial review, which was the 26th review, was conducted in 2012, and the contribution rate of 9.9% was found to be sustainable for the next 70 years.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

The Chair: Thank you.

Was that 70 years?

Mr. Glenn Purves: Yes, it's 70.

The Chair: Thank you.

Ms. Raitt is next.

Hon. Lisa Raitt: Thank you very much, Mr. Chair.

Thank you very much for being here. I have some questions regarding the legislation around the Canada Pension Plan, so I'm going to be quoting from that. You guys have somebody there who can help me with process.

I bring it up because there's a process that has been in place for the last 20 years, as noted in the most recent annual report of the Canada Pension Plan. It was tabled by Minister Morneau.

What it says is very specific in setting out for Canadians what the process is to ensure the financial sustainability of the CPP, which was the question you were just asked.

It says very clearly that every three years the ministers, federal and provincial, will meet in order to make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including something called the Actuarial Report on the Canada Pension Plan, which is prepared every three years.

My understanding of the process, from looking at the section on the financial review, is that after 1997, once every three years everybody shall review the financial state of the Canada Pension Plan. Then there's a process about how you make any changes.

This is my question: was this process followed this time for these changes?

Mr. Glenn Purves: Thank you for the question. Let me answer it in two parts.

The first part has to do with the actuarial report or review, and you are correct that there's a regular process for reviewing the actuarial soundness of the CPP. The last one, as I said to the member, was done in 2012, so we can expect the next one, the 27th report, to be completed sometime this fall.

The process is that it's provided by the Office of the Chief Actuary, meaning the chief actuary himself. It is provided to the Minister of Finance. The Minister of Finance then has a certain time frame—five business days—to table it within Parliament.

That's distinct from any process for dealing with an enhancement to CPP, which I think is the second part of your question. In the case of an enhancement to CPP, there are rules in the legislation about how to carry out an enhancement. There are guidelines saying that the CPP enhancement has to be done on a fully funded basis. Then there are guidelines in terms of changes to legislation, and then what the responsibilities of provinces are with respect to orders in council. On the process basis, that's how it's done.

Hon. Lisa Raitt: Okay. I understand that, and we're talking about the same part of the act, but my understanding is that there has to be a formal response in the form of a triennial review. Has that happened?

Mr. Glenn Purves: Once the 27th actuarial report will be tabled —

Hon. Lisa Raitt: No, I mean for the last one, because we're still in the open period for the last one. Is this the process?

Mr. Glenn Purves: The last triennial review was completed in 2015, I believe.

Hon. Lisa Raitt: Okay.

Mr. Glenn Purves: Just to be clear, the tabling of the actuarial report is what triggers the launching of the next triennial review.

Hon. Lisa Raitt: What was the outcome of the last triennial review?

● (1320)

Mr. Glenn Purves: The main finding, of course, was the sustainability of the plan. The provinces and territories and the federal level get together and decide what items they would like to review for the period, and for that period, not many items were identified.

Hon. Lisa Raitt: This concluded in 2015, as you said. Somewhere in the last nine months, something fundamentally changed from what the provinces and the federal government had concluded, since we now have these very large changes to the Canada Pension Plan. Is that why we're not going to be waiting for the next actuarial report instead of going through the triennial process?

Mr. Glenn Purves: Typically, the triennial review does review different aspects of the plan. It looks at retirement benefits. It looks at secondary and ancillary benefits and at all the plan's components. The view was that the calibration of the core CPP was on a sustainable basis and there was no decision to make changes at that time.

Hon. Lisa Raitt: Okay.

This is my last question, then. In your report—

The Chair: Sorry, Ms. Raitt; you're over time.

Hon. Lisa Raitt: This was a good one, though, Chair.

The Chair: I know, but that's too bad. You should have asked it earlier.

I am going to fit in a question if I can throw it in here.

Hon. Lisa Raitt: Now you're taking my time.

The Chair: No, your time is done.

On the CPP enhancement side, which was part of your question, what is the process? I think Ms. Raitt was leaning towards the idea that CPP enhancement is something that should have been done later, as a result of that report.

Mr. Glenn Purves: It's simply in the act. There are some rules stipulating that if you're going to enhance the CPP, it has to be on a fully funded basis. On the process aspect, there would naturally be changes to legislation, as the minister highlighted. Upon royal assent to that legislation, you'd need seven out of 10 provinces, representing two-thirds of the population, to come forward with their orders in council. The final step is the federal order in council.

The Chair: Thank you very much.

Mr. Duvall, you have five minutes.

Mr. Scott Duvall: Thank you.

I appreciate your coming here.

I understand that the new program will be fully phased in by 2025. So far, with the vague information that has been released, it would appear that in 2025 a person would have to contribute to the new levels for 40 years in order to be eligible for the full CPP enhancement. Is that correct?

Mr. Glenn Purves: That's correct.

There's a two-year notification period between now and 2019.

Mr. Scott Duvall: Right.

Mr. Glenn Purves: Until 2025, there's a seven-year gradual implementation. At that point, it's fully phased in. Then it's a 40-year accrual, so 40 years beyond that is when you would have the maximum benefit.

Mr. Scott Duvall: That would be 49 years from now, so the first person who would be eligible for the full CPP enhancement would be 16 years old as of today.

Mr. Glenn Purves: Absolutely.

It has to do with the youth, the young workers of today who are going to be in need of retirement benefits in the future. That said, anyone of working age or who is working from 2019 onwards who contributes to this enhancement will generate retirement benefits.

Your specific question was about the maximum, and you were correct that it would take 40 years to get to the maximum.

Mr. Scott Duvall: Okay.

My question is, what benefits would a person who is currently 15 years old receive under the new enhancement plan, versus a person who is 35 years old versus a person who is 55 years old?

Mr. Glenn Purves: A lot of it has to do with your income. Your income will determine what your biweekly contributions are.

I'll use an example. If someone is earning $40,000 per year and they've contributed for a full 40 years, then the incremental benefit to that person at retirement—what's on top of their core CPP, just the CPP enhancement—will be $3,200.

● (1325)

Mr. Scott Duvall: What I am asking, though, and what I'm trying to get at is that as of now, would a person who is 55 or a person who is 50 receive anything under this new enhancement?

Mr. Glenn Purves: If someone who is 50 pays in for 10 years, they would still have the full benefit from the CPP. They would have the number of years they contributed to the CPP enhancement as well, and, as the minister outlined, there are a whole number of measures that have been taken by the government to support new retirees or seniors on the GIS top-up, depending on their family situation, such as whether they have children, student assistance, the Canada child benefit, and so forth.

Mr. Scott Duvall: What proposals has your department prepared for the minister to reverse the increased levels of poverty among seniors while Canadians wait for these enhancements to take effect?

Mr. Glenn Purves: I would say that if you look at budget 2016, a number of measures have been taken to support seniors. One is the GIS top-up, which amounts to $947 per year for single unattached seniors who qualify for that certain income range. There is also the OAS, and bringing the age of eligibility down from 67 to 65. As the minister said, strong benefits come with that as well.

The Chair: Thank you very much.

We'll have to move on to Mr. MacKinnon.

[*Translation*]

Mr. Steven MacKinnon: Thank you, Mr. Chair.

I would like to thank all the witnesses for being here with us today.

A considerable capital reserve will of course be set aside and paid to the Canada Pension Plan investment board.

Do you know the additional amount of capital that will be received and managed by the Canada Pension Plan investment board?

[*English*]

The Chair: Ms. Anderson, go ahead.

Ms. Leah Anderson (General Director, Financial Sector Policy Branch, Department of Finance): Yes, we have. Over time, it will increase as contributions increase, and we expect that by 2045 the amounts in the enhancement will be equivalent to what is in the current CPP investment account, so at that stage they will both surpass $1 trillion for a combined asset base of $2 trillion.

Mr. Steven MacKinnon: Given the considerable increase in assets under management, have there been discussions with CPPIB with respect to governance of the organization, investment strategies, or other matters with respect to the management of this obviously massive sum of money?

Ms. Leah Anderson: That's a very good question. They will be the managers of the new funds that will be accruing. Certainly the investment policies will be key, and they will need to be tailored to the fully funded status of the plan and the objectives of it. Once the funds start to flow to the organization, the board will be entrusted, through its fiduciary responsibility, with a fully funded plan to set up an appropriate investment policy.

In the context of the upcoming triennial review with our federal-provincial partners, we will be looking at these issues to make sure they are prudently managed.

Mr. Steven MacKinnon: So there will be a review of governance measures or considerations around the governance of CPPIB that may come into play with this pretty massive increase in funds under management?

Ms. Leah Anderson: We have learned, particularly through the financial crisis, that you can never be complacent with corporate governance, so we take this aspect very seriously and we will continue to look at it to make sure it's fine-tuned to do the job it needs to do.

● (1330)

Mr. Steven MacKinnon: Could you describe the interaction right now between the department and CPPIB with respect to these reforms?

Ms. Leah Anderson: These reforms are very much in line with the objectives of the government. The CPPIB is an arm's-length agency set up to manage investment funds. The policy being put into place is separate and distinct from the investment of those funds. Going forward, how best to manage them will be a key issue we will need to take up with them.

Mr. Steven MacKinnon: For people's benefit, could you just situate a $1 trillion pension investment management organization in world terms and global terms? How big would that make the CPPIB, for example?

Ms. Leah Anderson: I can comment on where it is currently. In terms of the other public pension plans, it's currently about seventh in the world.

Mr. Steven MacKinnon: So this will not negatively affect that standing.

We'll have a chance, I know, to hear from CPPIB—or I assume we will, Mr. Chairman—in the context of reviewing the legislation that the minister is going to bring forward. I know we've asked as well that CPPIB and their new president come before us to introduce themselves. We look forward to that discussion.

Thank you.

The Chair: Thank you very much, Mr. MacKinnon.

Mr. McColeman, you have five minutes.

Mr. Phil McColeman: Thank you, Mr. Chair.

I'm going to read a quote from something I was reviewing this morning. It's dated August 30, 2016, and it's from the Canadian Vehicle Manufacturers' Association. It's a preamble to the specifics of the question that I want to ask you. It's section 3 of their pre-budget submission, which says:

> Increases to the costs of doing business in Canada, including the proposed increases in CPP employer contributions (payroll taxes), will negatively impact Canadian automotive competitiveness with other jurisdictions where costs are lower. Certainty and predictability are key factors when global investment decisions are made.
>
> As part of the announced Canada Pension Plan...enhancement, it is important that the government recognize the fact that auto manufacturing companies already provide high quality private pension plans to their workers. If CPP premiums are increased as proposed, this will result in significant increases to auto industry payroll expenses at a time when there are already competitiveness challenges for the industry in Canada versus other competing jurisdictions.

That leads into my question, which I'll ask you as government officials. Have you done a full analysis before this legislation of the impact of premium hikes on such things as business competitiveness, household income, jobs, and GDP, or will you be doing that and modelling it, as you say, in current economic circumstances before legislation is placed before the Commons?

The Chair: I don't think Mr. McColeman is asking for the policy decision, which is a government matter. This question is related to what officials may be able to answer without getting into the government decision itself.

Mr. Nicholas Leswick: Thank you for the question. I want to assure the committee that we did do our due diligence in trying to model the impacts, and as I described to the other member, we do this from an economy-wide, enterprise-wide perspective in trying to understand both the behaviour of firms—not sector specific, as your quote alludes to—and also the behaviour of households as well, as they respond to this new policy change. I want to say that the results of our modelling are effectively congruent with those of the Conference Board and other people who are doing this type of analysis.

In trying to plainly state it, while there will be this short-term impact between year zero through 12, it would be a very modest short-term impact and an impact that would be mitigated by this long phase-in period to allow firms the opportunity to adjust wages, profits, and prices to the new CPP enhancement. Ultimately the short-term impact would be quite modest, as I stated in probably the most easily understood raw nominal value, which is about $1 billion on a $2.4 trillion economy.

That is not to dismiss it, but that negative impact would then dissipate after year 12, and the economy, from a total output perspective, would start to reap the benefits through increased consumption as a result of larger post-retirement incomes. You know the efficiency of the CPP vehicle, so people would be substituting their savings into a portable, efficient, low-management-fee plan.

I could go on, but this is what our models tell us, and as I said, our models are comparable to those of others who are scrutinizing it.

● (1335)

Mr. Phil McColeman: I noticed that in presenting this information to us today, you've used the word “modest”. Please define “modest” to me in economic terms.

Mr. Nicholas Leswick: Again, I'm not trying to be dismissive, but we're talking about a $1 billion short-term output impact on a $2.4 trillion economy. If you put a 0.05% impact on output against the sum total of budget 2016 measures, which contributed to 0.5% of GDP growth, in comparative terms, in relative terms, it's quite small.

Mr. Phil McColeman: It's an interesting term for you to use, because it leads one to think that instead of complete objectivity, what some people see—especially people who are in business, such as the vehicle manufacturers here in Canada, and other small business people—is what I would say is a significant impact. That’s from the information we have from CFIB and others, which represent a broad number of businesses across the country, and the Canadian Chamber of Commerce as well.

I know Ontario came out because they didn't want the ORPP and Kathleen Wynne's plan. That said, I'm a little bit surprised at the use of the word “modest”, because some people's “modest” is other people's “significant” impact, depending on the scale of operations you have and such.

Can I ask you this question? Ontario was going down the road of implementing a plan. It had spent about $70 million in terms of its government taxation spending in Ontario, Ontario taxpayers' money, toward setting this plan up. I won't talk about the other aspects of tearing it down, which cost more money than you can believe. Again, maybe it's modest in some people's minds.

Did you use any of the information and research that Ontario did to set up the ORPP in coming to any of your modelling or your projections?

Mr. Nicholas Leswick: It's difficult for me to answer. We worked collaboratively with the provinces throughout this process. I can't say specifically whether we would have or would not have used any information, but let me go with "no". While it was a collaborative process, this was analysis that was internal to the Department of Finance Canada. It was our own general equilibrium models and economic models that rendered the results that I spoke to earlier.

The Chair: Thank you, Mr. McColeman.

Ms. O'Connell is next.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

In following up on that line of questioning, does your modelling take into account the savings of businesses for other government programs or tax reductions for small businesses, for example, and EI reductions from budget 2016, or is it purely the model of this program?

Mr. Nicholas Leswick: May I just consult with a colleague behind me so I can accurately answer the question?

The Chair: Go ahead, Mr. Leswick.

Mr. Nicholas Leswick: Thank you.

It's a model specific to this measure. It doesn't take into consideration the broader suite of other programs that might be more dynamic.

Ms. Jennifer O'Connell: Then in some instances it could be offset altogether by some of the other programs introduced by the government. That's not something I expect you to answer; I'm just throwing it out there that the model doesn't include some of the savings that this government has offered.

I want to talk about some of the numbers behind why we're here and why we're looking to the future. What has the department found in terms of the actual numbers of people not saving for retirement? Do you have statistics on the age range and the number of Canadians in this situation? What is the department worried about in terms of retirement savings? What are those statistics?

● (1340)

Mr. Nicholas Leswick: If I understand the question clearly, as we laid out in the backgrounder and as the minister mentioned, our analysis looks at Canadian households and their asset/liability profile through the survey of financial security. We take that financial profile and then evaluate what an individual household might have in terms of income sources after retirement.

As the minister said, our three pillars of retirement income are OAS, CPP, and private savings, either sponsored through RRSPs or TFSAs or in the form of other equities such as mutual funds, stocks, or equity that they would have in their household. Then we annuitize this balance sheet in a position against life expectancy of the average Canadian family and individual. Our assessment told us that 25% of individuals are at risk of under-saving when their position is calibrated against a 60% post-retirement income replacement rate.

That varies. There are commentators who believe that you need a lower income replacement rate. If that is so, then obviously the risk of under-saving goes down, but there are an equal number of people and academics who think you may need a higher replacement rate, depending on your income or household profile, and then the risk of under-saving goes up. At that 60% replacement rate, which the majority of literature out there says is a reasonable replacement rate to replace pre-retirement consumption, we believe 24% of Canadian households are at risk of under-saving.

Ms. Jennifer O'Connell: Thank you. Do I—

The Chair: You may have a very short one, Ms. O'Connell.

Ms. Jennifer O'Connell: My quick question is, why was seven years chosen for the phase-out? Why was it seven years? Why not sooner, or why not a little longer?

Mr. Glenn Purves: In its entirety we talk about seven years, but the reality is that there is a two-year notification stage plus a seven-year gradual phase-in. We are at 2016 right now and it's going to be fully phased in by 2025, so that's close to a decade. Without speaking for the minister who, with his colleagues, agreed to this in June, something in that order of magnitude was viewed as something that would allow Canadian businesses as well as individuals to prepare for an increase in costs. Having that gradual phase-in was viewed as allowing for industry and individuals to be able to absorb the modest contribution process.

Ms. Jennifer O'Connell: Thank you.

The Chair: Thank you very much.

I don't want to run out of time, but before I turn to you, Ron, I will mention to committee members that Thursday will be the deadline for recommendations for the CRA report that we are working on, which deals with tax avoidance and evasion. We are dealing with that report next week on Monday and Tuesday. If committee members have any recommendations, they should get them in so that we can deal with them effectively next week. We should have them by Thursday. Is that okay?

Go ahead, Mr. Liepert.

Mr. Ron Liepert: I have a couple of quick questions, mainly for my own information.

When someone retires, there are other programs for retirees, especially if CPP is their only retirement income. Can you elaborate on what those are and what they would pay as maximum amounts on a monthly basis?

● (1345)

Mr. Glenn Purves: That's true. There are many pillars. There are three pillars of retirement. In terms of the CPP, the maximum, which is called YMPE, yearly maximum pensionable earnings, would be $13,100. I think the minister mentioned that already. That doesn't include any enhancement that would come forward; that's just the core.

On top of that, it really depends on your income. There is an income-tested program called OAS—

Mr. Ron Liepert: Let's assume there is no additional income. What's the maximum OAS?

Mr. Glenn Purves: The maximum OAS would be $6,880.

Mr. Ron Liepert: So that's about 50% of what the CPP is, then.

Mr. Glenn Purves: Then with GIS you're looking at about $10,000 on top of that.

Mr. Ron Liepert: Effectively, at maximum those two subsidy programs today are higher than the CPP benefit, right?

Mr. Glenn Purves: This is assuming someone does not earn anything and has no working income in retirement.

Mr. Ron Liepert: Those are all government-funded programs. Those aren't employer-employee programs; they're effectively government subsidized.

Mr. Glenn Purves: They're government programs.

Mr. Ron Liepert: Right.

It allows the government at some point in time, as these numbers start to come, to potentially bring that down. Is that a fair assessment? Would some of that gap be filled by enhanced CPP?

Mr. Glenn Purves: Yes. Effectively, there could be a recovery tax rate. As more income is generated, the amounts could come down, specifically on the GIS portion.

Mr. Ron Liepert: Part of your responsibility, I presume, is to ensure that the minister has the broad range of information to help make decisions.

I asked the minister who he had consulted on this issue. Frankly, I didn't get an answer, so I have to conclude he consulted no one.

Does the department get what I would call stakeholder input before embarking on a major decision like this? Would you have met, for example, with the Canadian Federation of Independent Business and with labour unions? Did those kinds of meetings take place?

Mr. Glenn Purves: At the official level, depending on the policy file, we have numerous discussions with all sorts of interested parties. There's a CPP committee involving provincial officials with whom we're in regular contact. There are regular engagements with stakeholders that happen on a whole host of different policy issues. There are budget consultations that continue to go on. It's a normal feature of any department to do that.

Mr. Ron Liepert: What would be the consensus that you might have come to after those meetings?

Mr. Glenn Purves: It depends, on a policy-by-policy basis.

Mr. Ron Liepert: I mean on this policy specifically.

Mr. Glenn Purves: On this policy specifically, the outcome in June is a reflection of, as the minister said, the engagements at the finance minister level that they've had together. I can't speak to any private engagements that they've had or—

Mr. Ron Liepert: He seemed to indicate he didn't have any.

I'm not interested in your discussions with other finance departments across the country. The business community is eventually going to have to pay for this, so I'm asking you, as a department that's charged with giving the minister advice on policy decisions whether those kinds of discussions took place specifically on this issue.

● (1350)

Mr. Glenn Purves: CPP—

The Chair: Excuse me, Mr. Purves.

Maybe Mr. Champagne could shed some light on the political side of this equation, rather than putting you on the spot about the consultations.

Mr. François-Philippe Champagne (Saint-Maurice—Champlain, Lib.): Thank you, Mr. Chair, for putting me on the spot.

I think the minister was clear when he said he did consult widely on this issue. He had a number of town hall meetings this summer, as he mentioned, where he consulted. That's part of our role. We consult on an ongoing basis about all policies. As you know, we did that on a pre-budget consultation, as the officials said. We consulted with constituents and with business throughout the summer. I think the minister was very clear. To suggest otherwise is not in line with the record.

The Chair: Go ahead, Mr. Ouellette.

Mr. Robert-Falcon Ouellette: Thank you, Mr. Chair.

I was just looking at some of the rates. We heard a question about rates and how competitive Canada is.

I was just looking at the OECD report from 2013. In fact, Canada has some of the lowest contribution rates in the world. If you look at Austria, you'll see it was around 22.8% in 2012. In Estonia it's 22.8% as well. In France it's 16.7%. Even the United States has a contribution rate in 2012 of 10.4%. Mexico, really our only competitor in North America, actually has no contribution rate and essentially no pension plan or protection for their workers.

What efforts have you made in looking at some of the different rates in other world markets, whether in Singapore, Hong Kong, or Taiwan, and how do they relate to Canada and what we're doing?

Mr. Glenn Purves: Overall, I'd say that leading up to this there's been a lot of looking at different benchmarks in different retirement systems. The minister highlighted that Canada has a world-class system, and I think that's recognized at the OECD.

There are considerable challenges facing young workers. In terms of the demographics, for instance, young workers are going to be living longer, and there's a question of whether market returns will be at the same level they were in the past. In addition, if you look at the evolution of defined benefit plans, in many jurisdictions you'll see that defined benefit plans are moving away from the private space and many of the jurisdictions that you noted are actually looking at defined contribution plans.

A lot of this enhancement is about trying to bolster the portion of a defined benefit plan that is within a Canadian retiree's portfolio—

Mr. Robert-Falcon Ouellette: But we're also moving away from, for instance, a pay-as-you-go model to more of a long-term model here.

Mr. Glenn Purves: That's right. There are two reasons for that. One is that any enhancement is supposed to be done on a fully funded basis, so it's more about income replacement than anything else. The longer you contribute to that plan, the higher your retirement benefit will be. Those principles are very much akin to what you would see in a registered pension plan in the private sector as well.

Mr. Robert-Falcon Ouellette: I have another question. I was just wondering about the working income tax benefit. Could you give me the number of the number of Canadians who will potentially benefit from it?

Mr. Miodrag Jovanovic: There are currently about 1.5 million individuals benefiting from the working income tax benefit. Many of those same individuals will benefit from the expansion. I don't have a precise number as to how many more, if there are more, but I think that by and large they are going to be the same individuals.

Mr. Robert-Falcon Ouellette: I have just one final question, Mr. Chair.

We have, I think, around 250,000 to 260,000 federal employees. I was wondering what the cost to the treasury would be in increasing the CPP. Would you have that number?

● (1355)

Mr. Miodrag Jovanovic: Do you mean just for the federal employees?

Mr. Robert-Falcon Ouellette: Yes.

Mr. Miodrag Jovanovic: I don't have that number, but we can have an estimation.

Mr. Robert-Falcon Ouellette: Okay.

The Chair: Okay, thank you. That information can be sent to the clerk.

Mr. Duvall, you have the last questions.

Mr. Scott Duvall: Thank you.

There's word out there that some of the provinces have expressed concerns about the new plan and the effect it's going to have on low-income people. Some provinces are complaining about the effect on businesses. Have there been any unresolved issues with the provincial governments that the federal government must address before implementing the proposed changes to the CPP, and if so, how are they going to go about doing that?

Mr. Glenn Purves: In June there were eight signatories to the CPP enhancement. Manitoba joined as well, so that brings it to nine. Then Quebec gave its support to the enhancement, although it's going to be doing its own consultations.

Since then, there have been no issues to report. There have been items identified by provinces as being important to look at as part of the triennial review that I discussed earlier. Manitoba identified some issues that will be tabled, and certainly other provinces will want to look at these issues as well, but the triennial review and these issues have much more to do with the CPP in general. The fact is that this plan would not be in place until 2019, and we continue to have regular dialogue with our colleagues. Again, at the officials level there's a CPP committee, and at the political level there are ongoing discussions with colleagues.

Mr. Scott Duvall: Then there are no conditions from any of the provinces that must be met prior to implementation?

Mr. Glenn Purves: As I said, there is a process for the CPP enhancement to be put in place, which is clearly laid out in the CPP Act. Legislation will be tabled, and that will be followed by provincial orders in council and then a federal OIC.

Mr. Scott Duvall: Okay. Thank you.

Thank you, Mr. Chair.

The Chair: With that, we will call it a day.

Thank you, Ms. Anderson and gentlemen, for coming before the committee to answer questions.

To the members who are also on the subcommittee, there is a meeting this afternoon at 3:30 and there are pre-budget consultations tomorrow at 3:30. That should keep everybody happy.

Thank you very much.

The meeting is adjourned.

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