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## Comments on Keith Horner

### “Assessing Options for Pension Reform”

1. 25% to 30% of modest and mid-income persons not saving enough to prevent sizeable fall in living standards at retirement
2. Analysis favours expansion of CPP benefits (mandatory, DB), offers explicit proposal
3. Expresses concerns over two main areas
  - a. Keep CPP benefit expansion moderate to avoid limiting individual saving choices
  - b. TFSAs: GIS cost impacts & how expanded CPP benefits might control those impacts

# Points of Commentary

1. Factors affecting desired size of CPP benefit expansion: welfare costs of “over-saving” vs. welfare benefits of greater expansion
2. TFSA and CPP expansion vs. other policies to address potential equity/fiscal effects of TFSAs
3. CPP expansion and equity/incentive/fiscal benefits of concomitant OAS phase-out (with offsetting GIS expansion)

# Alternate CPP Expansion Plans

	<b>Current CPP</b>	<b>Horner Big CPP</b>	<b>Other Big CPP Plans</b>
YMPE	\$47,200	\$47,200	\$47,200
BR(\$0 to YMPE)	25%	40%	50% to 70%
YMPE* (second tier)	NA	\$94,200 (2 x YMPE)	\$47,200 to \$127,800
BR (YMPE to YMPE*)	(0%)	25%	50% to 70%

YMPE = Year's Maximum Pensionable Earnings

BR = Benefit Rate as % of Claimant's Lifetime Average Pensionable Earnings (over relevant earnings range)

# Big CPP: How Much Expansion

Horner: “The DB plan benefit structure of [an increase of] 15% of earnings up to the YMPE and 25% of earnings above it was chosen as a reasonable trade-off between these costs [of limiting individual savings choices] and the benefits of greater retirement income security.”

# Size of Big CPP: Limiting Factors

- Horner cites “welfare costs” of “over-saving”
  - What are these costs, how to measure them?
  - Displacing existing savings vehicles
    - Workplace pensions (DB), business equity
  - Constraints on individual choice/flexibility
    - Timing and amounts of saving
      - Home purchase, child costs, preferences to consume while younger
    - Timing and amounts of dis-saving
      - Major purchases, bequests, emergency needs, prefer to spend while not too old
  - Forms of saving could be constrained
    - Housing or business vs. financial assets
    - Financial portfolio: equities, risk, timing

# Size of Big CPP: Enlarging Factors

- Opposing considerations for more enlargement
  - Universal forced savings addresses under-saving, which also entails major “welfare costs” for both the individuals and for society
  - Individual savings myopia entails welfare costs
  - Weaknesses of private savings/investments; both by individuals and by institutions
  - Displacing RPPs not necessarily undesirable; Big CPP has lower cost & risk, higher return; avoids RPP portability/mobility/work biases
  - Universal coverage addresses adverse selection, annuitization costs, issues of risk pooling
  - Inadequate coverage and benefits raises issue of Samaritan’s dilemma, cost shifting to savers

# TFSA and CPP Expansion

- Horner projects that TFSA provision greatly expands future usage and public cost of GIS; expanding CPP reduces this impact; suggests making TFSA 50% deductible, 50% taxable
- CPP expansion justified by many other gains, do not need this saving to justify Big CPP
- Directly address TFSA impact on GIS claimants by imputing a return (e.g. 5%) to TFSA account above a threshold (e.g. \$100,00) solely for GIS
- This approach would not affect income-tax-free nature of all TFSA withdrawals
- Recommend that this change be instituted sooner rather than later: fair advance warning

# CPP Expansion and OAS Phase-Out

One additional prospective gain from sufficiently large expansion of CPP: OAS phase-out

Discussed in my paper “Big CPP’s Potential Role in Pension Reform,” draft version from [kesselman@sfu.ca](mailto:kesselman@sfu.ca)

OAS phase-out would be implemented over 47 year period of CPP phase-in

GIS max benefit expanded to offset OAS removal

Phase-out reduces future tax burdens, related disincentives; removes inefficiencies of OAS clawback; addresses Samaritan’s dilemma; improves equity between low and high savers

OAS phase-out also motivates larger Big CPP

# Horner Big CPP vs. Bigger Big CPP

- Horner cites all of the same rationales for CPP expansion as proponents of Bigger Big CPP
  - Adverse trends for savings, aging, pensions, etc.
  - Lower investment returns, high charges
  - Problems with individual savings & investing
  - Superiority over many workplace pensions
- Same conclusion about the desirability of CPP expansion; need for mandatory provisions; inadequacy voluntary provisions, RPP reforms
- Remaining questions: how much CPP expansion, how mandatory vs. opt-out, how to implement