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CPP return for future retirees just 2.1%: study

Staff | May 5, 2016



Canadian employees born after 1971 can expect to receive a rate of return of just 2.1 per cent on their Canada Pension Plan contributions, according to a new study by the Fraser Institute.

That compares to higher returns for employees born between 1955 and 1971, who can anticipate a return of three per cent, and those born between 1905 and 1914 who retired between 1970 and 1979. That group saw a real return of 27.5 per cent.

The study, which looked at historical and projected benefits, assumed employees retire at age 65 and

compared them to the total contributions made over the course of a person's working life.

Retirees in 1969 saw a rate of return of 45.5 per cent, according to the study. The number dropped to 12.6 per cent for those who retired in 1989 and 3.6 per cent for those who did so in 2015.

Joe Nunes, president of Actuarial Solutions, agrees with the findings but says a potential cause for these low rates is that "going forward [we] are paying for the phase-in of retirement benefits to those retiring in their early years...and I think that it's something that maybe actuaries know but the general public doesn't realize that's how it's working."

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The study noted many Canadians confuse their individual rates of return with those earned by the Canadian Pension Plan Investment Board, the investment arm of the Canada Pension Plan. It has a 10-year annualized return of eight per cent.

"It's easy to see how average Canadians could confuse the rates of return earned by the CPP fund with what they actually receive via their CPP retirement benefits," says Jason Clemens, executive vice-president at the Fraser Institute and co-author of the report.

"The reality is that Canadians born after 1971 are receiving modest returns from the CPP. The CPP Investment Board has achieved impressive results since its creation but it has no direct effect on the benefits received by Canadian workers in retirement."

The study reports that while the CPPIB returns have no direct effect on the benefits that Canadians receive, there is the

potential for “indirect benefits.” For instance, a sustained high return by the CPPIB could hypothetically equate to a reduction in the contribution amount or an increase in benefits received.

Read: [CPP fund ended 2015 up nearly 10 billion in assets](#)

Nunes says he would rather not distinguish on the basis of direct impacts and indirect effects on benefit levels and contributions over the longer term. “I would say that the investment board’s returns will have a direct impact on future benefits and contributions. The only question is when politicians will make adjustments,” he says.

The study attributes the drop in return to two main factors. The first is higher contribution rates, which have nearly tripled (stabilizing at 9.9 per cent in 2003) since the launch of the CPP at 3.6 per cent in 1966.

The second issue is the fact that early contributors paid into the plan for a shorter period. In the early years of the plan, people had to make only 10 years of maximum contributions in order to receive a full CPP benefit. That period is currently 39 years.

Finance Minister [Bill Morneau has committed to CPP reform](#) by the end of 2016. But Nunes notes: “Whether we keep the CPP going forward or not, future taxpayers are going to have to pay for the benefits already promised. I am not advocating eliminating the CPP. I think the CPP is a valuable source of reliable lifetime income for Canadians. I am just not in favour of expanding it any further.”

Read: [CPP more costly than other public sector pensions: report](#)

Year of retirement	Year of birth	Nominal IRR	Real IRR
1969	1903	52.3%	45.5%
1970	1905	46.1%	39.1%
1971	1906	41.7%	34.3%
1972	1907	38.7%	30.8%
1973	1908	36.3%	27.9%
1974	1909	34.4%	25.7%
1975	1910	32.8%	24.0%
1976	1911	31.6%	22.8%
1977	1912	34.8%	25.2%
1978	1913	32.8%	23.3%
1979	1914	31.1%	21.6%
1980	1915	29.4%	20.1%
1981	1916	27.9%	18.8%
1982	1917	26.2%	17.5%
1983	1918	24.8%	16.5%
1984	1919	23.8%	15.8%
1985	1920	23.0%	15.3%
1986	1921	22.2%	14.9%
1987	1922	21.2%	14.2%
1988	1923	20.1%	13.4%
1989	1924	18.9%	12.6%
1990	1925	17.9%	11.9%
1991	1926	16.9%	11.3%
1992	1927	16.0%	10.7%
1993	1928	15.4%	10.3%
1994	1929	14.7%	9.9%
1995	1930	14.1%	9.5%
1996	1931	13.4%	9.1%
1997	1932	12.8%	8.6%
1998	1933	12.1%	8.2%
1999	1934	11.6%	7.8%
2000	1935	11.0%	7.4%
2001	1936	10.5%	7.0%
2002	1937	9.9%	6.6%
2003	1938	9.5%	6.3%
2004	1939	9.0%	5.9%
2005	1940	8.5%	5.6%
2006	1941	8.1%	5.3%
2007	1942	7.8%	5.0%
2008	1943	7.4%	4.7%
2009	1944	7.1%	4.5%
2010	1945	6.9%	4.3%
2011	1946	6.7%	4.1%
2012	1947	6.4%	4.0%
2013	1948	6.2%	3.8%
2014	1949	6.1%	3.7%
2015	1950	5.9%	3.6%

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