Zero Increases for CPP Premiums in 2011

NEWFOUNDLAND & LABRADOR employers' COUNCIL

Approved by the NLEC Executive
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Overview

The Newfoundland and Labrador Employer's Council (NLEC) is calling recommendations from Federal Finance Minister Jim Flaherty to increase to the Canada Pension Plan (CPP) benefits exorbitant. It is the position of the Newfoundland and Labrador Employer's Council (NLEC) that the Federal government should refrain from increasing Canada Pension Plan (CPP) benefits in 2011.

In February 1997, the federal government and all provinces except British Columbia and Saskatchewan agreed to refinance the CPP by accelerating contribution increases and reducing benefits. Increases to the employer half of CPP contributions raised labour costs and reduced demand for labour. Implementing another extreme round of increases in mandatory payroll taxes in 2011 will detrimentally affect the payroll budgets of every business in Canada. Employers will be faced with recovering their share of the tax increase in the form of higher prices on goods and services. Employers will also be forced to reduce their demand for labour. The end result, increasing CPP premiums increase inflation and result in job losses for Canadians.

CPP premiums for both employers and employees have already increased by 75% since the late 1990's, with no corresponding increase in benefits. Premium increases now will not result in any noteworthy benefit increase in the near future. Employers should not have to endure another increase in CPP premiums due to government's mismanagement of the CPP system.

1997 to 2007:
"The remarkable health of the CPP is a tribute to the reforms"

In 1997, Bill C-2 proposed amendments to the CPP: preserving and strengthening the financing by accelerating increases in the contribution rate. During an earlier review in 1991, government had called for a steady increase in contribution rates to 10.1% by 2016. As part of the 1991 review, the contribution rate for 1997 was proposed to be set at 5.85%. The major changes were put forth by government in an attempt to safeguard the fiscal soundness of the plan in the years following.

In 2003, CPP contribution rates were contained at 4.95% each for employers and employees, and were purported to be sufficient to fund the plan *indefinitely* given other adjustments that were to be made to benefits in the longer term. The CPP contribution rate has remained stable at 4.95% for the past eight years and since that time; there have been no imminent threats of a pension collapse.

At a 2007 conference that marked the tenth anniversary of the CPP reforms, David Denison, CPP Investment Board President and Chief Executive Officer said "The CPP reforms of the mid-nineties stand as a bold and visionary achievement that has become a model for pension reform around the world. The CPP Fund has grown from a legacy portfolio of more than $35 billion in government securities to what is now a broadly diversified portfolio of more than $121 billion invested on behalf of 17 million working and retired Canadians." During the same conference, Dr. Cook-Bennett, chairperson of the CPP Invest board stated "The remarkable health of the Canada Pension Plan is a tribute to the reforms – and the reformers – of the mid-nineties, and is a great advantage for Canada." In 2007, the CPP rate was 4.95% and it remains intact at 4.95% today in 2010.

Fast-forward to 2010:
"There is no 'Pension Crisis' in Canada"

In 2009, the Federal Minister of Finance stated there was 'no pension crisis in Canada.' In addition, a report commissioned by the federal government concluded Canadians are not headed for a major income shortfall in retirement benefits. Keith Ambachtsheer, one of Canada's leading independent authorities on retirement finance, agrees that there is no pension crisis.

There have been an abundance of surveys conducted by independent authorities on retirement benefits and Canada is near the top of the Organization for Economic Co-Operation and Development (OECD) in terms of adequacy, sustainability and soundness of its pension system. In the Melbourne Mercer Global Pension Index last year, for example, Canada ranked 4th overall, based on the quality of our pension system among a select group of 11 countries, which include; Netherlands, Australia, Sweden, Canada, UK, USA, Chile, Singapore, Germany, China and Japan

The Canadian Labour Congress (CLC), representing unions with about 3 million members, has sought to have CPP benefits double for nearly three decades, which would necessarily be financed through increases in contributions over seven years, following the pattern set by CPP reforms in the 1990's. In seeking to double CPP benefits, the NLEC is of the view that the CLC is advocating for a pension plan that is unsustainable and unnecessary. This unnecessary change would prompt a complete overhaul of the current system and would transfer a significant cost to future generations. The NLEC believes that the current CPP system works well; it is secure, reliable, and cost-effective.

Conclusion

As Canadians slowly recover from a recession, it is crucial for government to maintain current payroll taxes and decline to implement any proposed increases in the immediate future. The NLEC believes there should be a strong focus on maintaining the stability of the payroll budgets of every business in Canada. There should be an emphasis on educating and informing Canadians about the existence and use of financial products and how they integrate with registered savings vehicles, including Tax-Free Savings Accounts and RRSP's. Canadians should not be forced to save, but rather be educated to assess their own circumstances. Where possible, the method of retirement savings should be left to the choice of the individual.

Increasing the CPP contribution rate is a tax on employment and is therefore a major deterrent for employers to increase employment opportunities in Canada. There is no evidence to suggest an inherent threat to retirement savings for most Canadians. Any modifications to the CPP system should be focused at specific employees in need of assistance. A sweeping reform of the CPP is costly and unnecessary. For this reason, the NLEC believes that the federal government should maintain the current CPP contribution rate of 4.95%, as there is currently no pension crisis in Canada.