The Second International Workshop on
The Balance Sheet of Social Security Pensions

Comments on "Accounting for and Thinking about Social Security Liabilities in Canada" William Robson C.D.Howe Institute

by

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This paper describes Canada's experience with social security and related programs. As to Social Security System in Canada, the Pension System has three pillar system, i.e. First Pillar includes the Old Age Security for the Elderly (OAS) and the Guaranteed Income Supplement (GIS) whose objective is to provide non contributory, tax financed, age based entitlement. Second Pillar includes the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP) that provide the retirement benefit and the disability benefit. In 1998, these plans shift from PAYG to fully funded. This reform is summarizes as (1) to trim benefits slightly, (2) to change the way in which average retirement benefits are calculated, (3) to ramp up contribution rates, (4) to free the CPP from its obligation to invest in provincial government debt, and (5) to create an arms-length CPP Investment Board to manage its assets. Its ultimate objective is to provide income replacement after retirement. It is said that this reform was very successful. Third Pillar is covered by Private Tax Deferred Pension Saving. That provides further benefits.

In addition, there are other elements in Social Security System in Canada, that is, the Social Insurance System including; (1) National Unemployment Insurance, (2) Provincial Workers' Compensation, (3) Provincial Drug Program, (4) Provincially Funded Doctor and Hospital Services.

I have some clarifying questions concerning the recent pension reform. The author's explanation of the reform sound very easy to implement and to achieve. I am wondering whether the initial conditions of Canadian demographic structure or other economic factors are rather well, compared with the conditions we have in Japan.

Second, as to the current status of the CPP, the author reports different internal rates of return by different cohorts. How these figures are calculated? In so doing, is notional DC accounting for the past contribution used? How does the CPP Investment Board (CPPIB) manage the CPP assets? What are its operational rules? Who is monitoring the CPPIB?

Third, as to the current status of the QPP, we, non Canadian, have a difficulty to understand the political sensitivity of the issues related to Quebec. What is a different criterion of the QPP for judging the sustainability of its contribution rate? any specific investment strategy of the QPP funds? What is the rationale to be separated from the CPP?

Fourth, according to Tables 1 and 2, the pension related imbalance is relatively small compared with age-profile spending with an aging population. But health spending is another way to transfer public money to the elderly. I am wondering a rapid increase in health spending, mainly for the elderly, is sustainable. As the author mentioned in his conclusion, a higher effective tax rate would be expected to finance the higher health spending. Then the pension sustainability *per se* does not guarantee the retirement life safety-net. I fully agree with the author that consolidated consideration with the pension and health spending is very important. But I am waiting for an answer from the author how to guarantee the overall old age security on the consolidated bases in Canada.