The reality of CPP reform: We can’t afford not to make these changes

By Rob Carrick
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An expanded Canada Pension Plan means more zero-stress income for life after you retire.

Yes, individuals and business will pay more in contributions as a result of the CPP reform plan announced on Monday. These are financially stressful times, and not a lot of us have spare cash. But the payoff of a bigger CPP retirement benefit is huge in a world where a majority of workers have no company pension plan to rely on.

The federal government says someone with $50,000 in level earnings through their working life would receive $16,000 per year in CPP retirement benefits after a phase-in period that begins in 2019 and ends in 2025. That’s an increase of about $4,000 from the current level. The maximum payout will rise to $17,478 a year, one-third more than the current maximum of $13,100.

Critics of CPP reform say the cost of enhancements are too big a strain, and they’re unnecessary in a country where registered retirement savings plans and tax-free savings accounts are widely available. What these objections overlook is the fact that CPP money is arguably more valuable than your own savings.

First off, the CPP is money for life. One of the big objections to the CPP is that your full pension is lost if you die young (your spouse or partner may receive a small survivor’s benefit). But the bigger risk is that you’ll outlive your savings. Not the CPP, though. If you live to 175, it keeps paying.

Another valuable thing about the CPP is that it runs itself. You don’t have to make any decisions about what to invest in, and you don’t have to worry if the stock market plunges. People have issues with the investment board that runs the CPP’s assets. They say the cost of running these investments is high, and that there’s a lot of complexity through the use of private equity (shares not traded on stock markets) and actual assets like parking lots and real estate. But overall, the money is in good hands.

Still another benefit of CPP retirement benefits is that they save you from having to make that tough-to-execute pivot being a retirement saver to being a retiree who must now draw upon his or her savings. People worry a lot about what’s a sustainable amount of money to withdraw from their savings in retirement. You’ll have to confront this for your TFSAs, RRSPs and registered retirement income funds, but not the CPP.

Higher payouts will cost you – and your employer. A worker making $55,000 will pay $7 more per month on an after-tax basis starting in 2019, with the cost rising to $34 by 2023. To lighten the load, the federal government will provide a tax deduction for worker contributions connected with the enhancement of the CPP. Currently, there’s a less generous tax credit for money paid into the CPP.

CPP scoffers say we can’t afford these higher costs. The reality is that we can’t afford not to make them. Forget current and soon-to-be retirees – they’re doing fine for the most part. The real risk is that younger adults aren’t able to save enough for retirement on their own.

The rise of the housing market in many cities is a big factor here. People are taking on huge mortgage payments to buy a house, and that means little or no money for retirement saving. Dazzled by big house price gains, some people barely believe in investing in stocks and bonds any more.

But in most cases, you can't turn your house into a well-funded retirement. The money you take out of your house will be needed to buy the next place you live. Also, there's the growing risk of a pullback in house prices in some cities.

The importance of the CPP is highlighted by the decline in the number of people who are members of a company pension plan. Statistics Canada's latest numbers say 6.2 million people were pension plan members in 2013. That means an overall coverage rate of 37.9 per cent, down from 38.5 per cent in the previous year.

Pension envy is a thing in Canada – just mention teacher or civil servant pensions to your friends and family and watch the fun begin. The CPP is a great equalizer. It's a pension for the masses, and it's getting a little better.