


Canada

Canada: Pension system in 2012

The pension system offers a universal flat-rate benefit, which can be topped up with an income-tested benefit, and earnings-related public schemes.

Key indicators

		Canada	OECD
Average worker earnings (AW)	CAD	46 900	42 600
	USD	47 000	42 700
Public pension spending	% of GDP	4.5	7.8
Life expectancy	At birth	81.4	79.9
	At age 65	20.2	19.1
Population over age 65	% of working-age population	23.7	25.5

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Qualifying conditions

The basic old age security (OAS) pension is subject to a residence test, with 2.5% of the maximum pension earned for each year of residence after age 18 up to a maximum of 40 years. A minimum of ten years' residence is required to receive any benefit. It is currently payable from age 65.

In June 2012, the Government of Canada introduced changes to the OAS Programme. Commencing in April 2023, the age of eligibility for the basic OAS pension and GIS benefit will gradually increase from 65 to 67, with full implementation expected by January 2029.

For the earnings-related scheme, a full pension requires about 40 years' contributions but a single valid contribution is sufficient to generate an entitlement. Normal pension eligibility age is 65 but an early pension can be claimed from age 60.

Benefit calculation

Basic

The 2012 full pension level for the OAS pension was CAD 6 510.60. The value of the basic pension is price-indexed.

This pension is subject to an income test operated through the tax system (a "claw-back"). For income above CAD 69 562 a year, the basic pension in 2012 was withdrawn at a 15% rate. It is also indexed to prices.

Targeted

The guaranteed income supplement (GIS) is added to the basic OAS pension. The combination gave a maximum benefit of CAD 15 338.52 in 2012 for a single pensioner.

The GIS is reduced against income other than the basic pension at a 50% rate. The target benefit level is price-indexed.

Earnings-related

Earnings-related pensions and benefits are provided by the Canada Pension Plan (CPP)/ Québec Pension Plan (QPP). The CPP and QPP offer broadly similar benefits. The scheme targets a replacement rate of 25% of earnings up to the Yearly Maximum Pensionable Earnings (YMPE), based on average lifetime salary (excluding the 15% of years with the

lowest earnings). Earlier years' pay is re-valued in line with economy-wide earnings. As noted previously, the full benefit requires about 40 years' contributions with proportional reductions for shorter work histories. The maximum earnings-related retirement pension for 2012 was CAD 986.67 a month.

People earning less than CAD 3 500 a year are not required to contribute. The ceiling, or YMPE, for contributions was CAD 50 100 in 2012. The ceiling is indexed to increases in average earnings while the contribution floor is frozen in nominal terms.

The value of the earnings-related pension after retirement is updated annually in line with prices.

Voluntary private pensions

There is an additional voluntary pension which is assumed to be defined contribution. The contribution rate is assumed to be 8.5%.

Variant careers

Early retirement

Early retirement beginning at age 60 is possible in the state earnings-related scheme subject to a benefit reduction. The reduction was 6% per year in 2011 and is gradually being increased to 7.2% per year over a period of five years starting in 2012. Early retirement is not possible in the other two public schemes (basic and means-tested).

Late retirement

The earnings-related pension can be deferred, earning an increment for each year after age 65 – up to a maximum of five years. The increment was 6% per year in 2010 and is gradually being increased over a period of three years to 8.4% per year in 2013. Currently, the basic and income-tested benefits cannot be deferred. The income-test for the latter includes earnings, whilst for the former there is a claw-back against large incomes, again including earnings.

Starting in July 2013, individuals will have the option to defer the basic pension for up to five years. The deferred pension will be adjusted upward by 0.6% per month for each month after the first eligible age.

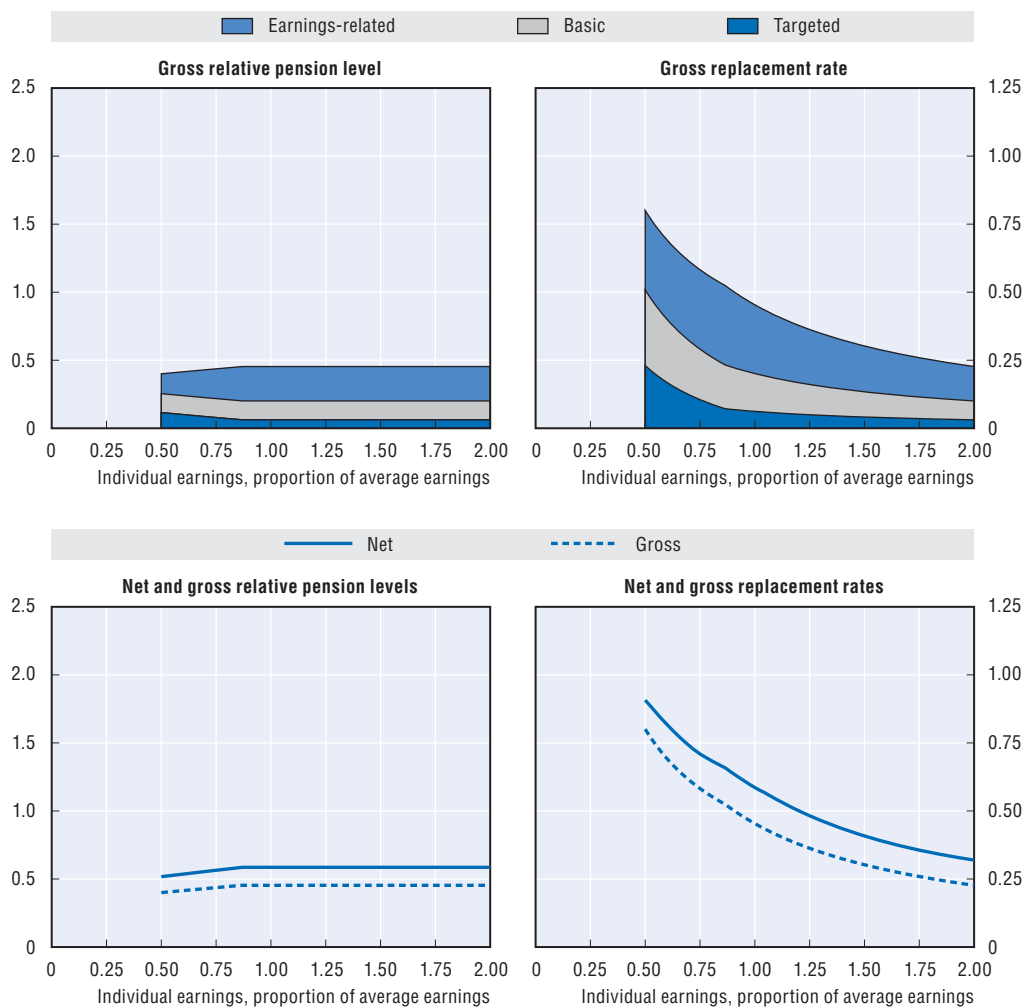
Childcare

Years of caring for children under the age of seven are excluded from the averaging period in the pension calculation and these years are excluded from the contributory period under the earnings-related scheme.


Unemployment

Up to 15% of the contributory period may be excluded in calculating average earnings in the earnings-related scheme. This drop-out is intended to compensate for periods of unemployment, illness, schooling, etc. There are no credits for periods of unemployment.

Pension modelling results: Canada



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	45.4	40.0	43.7	45.4	45.4	45.4
Net relative pension level (% net average earnings)	58.6	51.7	56.4	58.6	58.6	58.6
Gross replacement rate (% individual gross earnings)	51.0	80.1	58.2	45.4	30.2	22.7
Net replacement rate (% individual net earnings)	64.4	90.7	70.9	58.6	40.8	32.0
Gross pension wealth (multiple of individual gross earnings)	8.2	12.9	9.4	7.3	4.9	3.7
Net pension wealth (multiple of individual gross earnings)	9.3	14.6	10.6	8.3	5.5	4.1
Net pension wealth (multiple of individual net earnings)	8.2	12.9	9.4	7.3	4.9	3.7
Net pension wealth (multiple of individual gross earnings)	9.3	14.6	10.6	8.3	5.5	4.1

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