

Pension Futures: Historical Perspectives

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Historical Perspectives

- Private pensions emerged before public programs but such programs were adopted in response to the flaws of private pensions
- Germany created the first modern public pensions in 1889 but, at the time, many workers died too young to collect benefits (71)
- In Canada, the federal state created the first modern public pension program in 1927

From Private Flaws to Public Programs

- In the 1950s and the first part of the 1960s, the flaws of existing private schemes were central to the Canadian pension debate
- The creation of OAS and, later, CPP/QPP stem from the recognition that, on their own, voluntary private pensions cannot adequately protect the whole population

The Canadian Post-War System

Old Age Security (modest universal flat benefit for all seniors created in 1951)

Guaranteed Income Supplement (income-tested minimum pension created in 1967)

Canada and Québec Pension Plans (second tier, earning-related plan created in 1965)

Employment-based pensions (Registered Pension Plans) and personal savings accounts (Registered Retirement Savings Plans)

Some Features of the Our System

Modest public pension expenditures and comparatively low contribution rate (combined rate of 9.9% for CPP)

Modest Public Benefits: together, OAS and C/QPP replace approximately 40% of earnings for the average wage earner.

Important Level of Redistribution: low-income rates among seniors are low (5% compared to a US rate in excess of 20%).

Limited Private Coverage: due to a lack of compulsory coverage, employer-sponsored plans only cover part of the workforce.

Three Waves of Reform

- *Great Pension Debate* (mid-1970s to early 1980s): a high profile but doomed attempt to expand the second-tier earnings-related plan to Euro-like levels
- Mulroney Era (1984-1993): marked by the introduction of an “income test” for flat rate pensions in 1989 (but the effects of the “clawback” have been modest)
- Liberal Era (1993-2006): significant 1997 CPP reform but efforts to scale back OAS benefits for middle income seniors did not get beyond the proposal stage

The Current Debate

- Demographic aging as a fiscal challenge
- The flaws of voluntary private coverage
- The 2008 financial crisis
- Should we expand CPP benefits, create a new public program, and/or strengthen pension regulations?
- Our panellists will deal with these issues while raising apparently technical but key questions!

Sources

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