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# Older and Wiser? The Future of Pension Policy

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# Overview

## The Emerging Problem

- Lower, less reliable, higher cost replacement rates for moderate and high income earners. Why?
  - Declining coverage of high replacement rate/low cost DB plans
  - Partially substituted by low replacement rate/high cost DC plans
  - Overall decline in RPP coverage

## Two Solution Sets

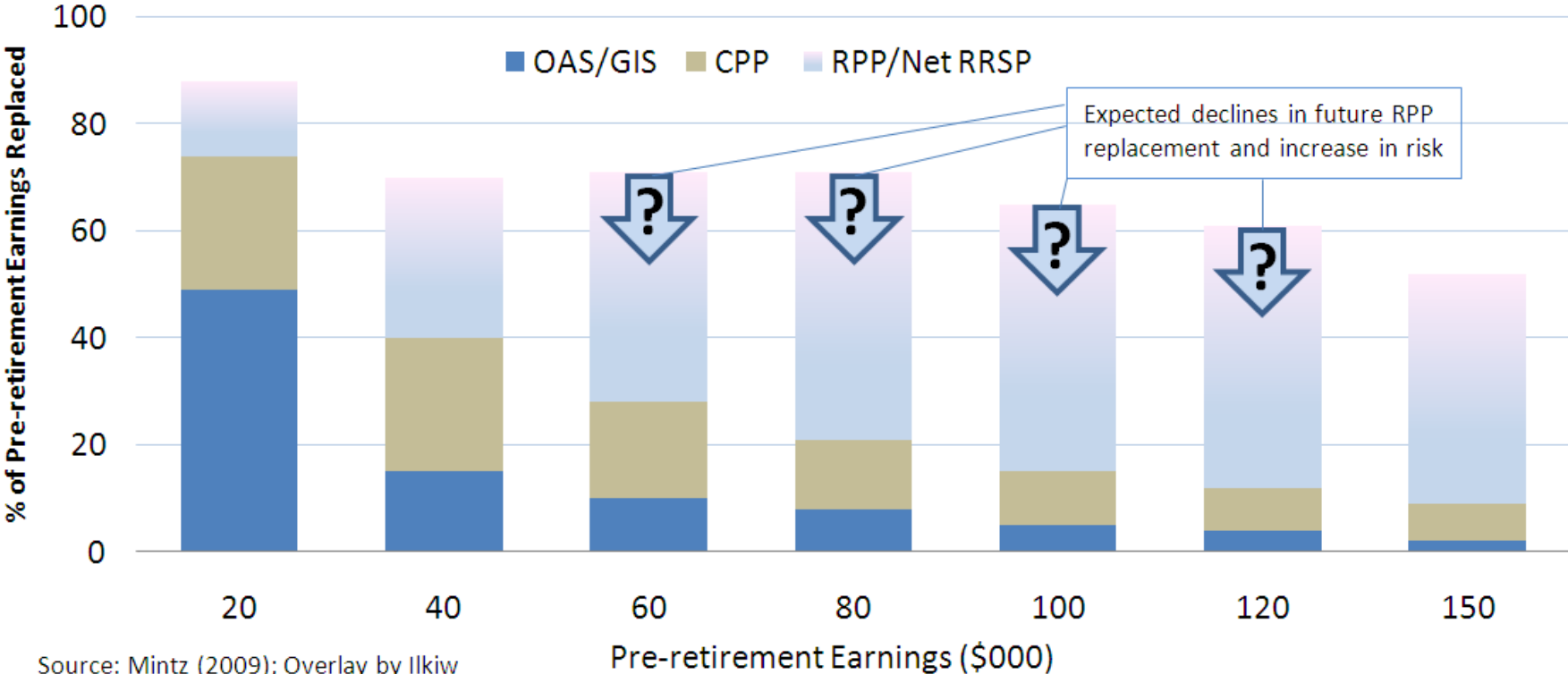
1. Raise CPP contributory base (YMPE) to \$116,666 from \$47,200
2. Introduce pan-Canadian defined contribution plan to supplement CPP

## Balancing Two Public Policy Perspectives

1. Public programs expressing collective choices
2. Private markets expressing individual choices

# Lower, less reliable, higher cost replacement rates for moderate and high income earners

**Income Replacement by Each Pillar of Retirement Income System  
(Stylized Average Individual)**



Source: Mintz (2009); Overlay by Ilkiw

# Expand CPP contributory base (YMPE) to \$116,666

- Targets the identified and growing problem
- Compulsory participation
- Fully indexed, low cost, low risk replacement rates for 95% of all earners
- Leaves room for private market custom “top-up” solutions
- Intergenerationally fair – low risk, full funding at 8.0%
- Benefits mature over 35 years
- Leverages existing CPP administrative infrastructure
- Low start-up costs
- Assets managed by new CPPIB-like organization with similar arms-length governance structure or current CPPIB

# Expand CPP Contribution Base

Contribution rate on existing YBE-\$47,200 range maintained at 9.9%

## Contribution Rates on \$47,200-\$116,666 Range:

Benefits Included in New Accruals	New (Incremental) Fund Asset Mix	
	60% Equity 40% Bonds	10% Equity 90% Bonds
All existing benefits	6%	8%
Retirement benefits only	5%	6 1/2%

Estimates are approximate and should be considered as indicative

Incremental full funding ensures that all contribution rates are fair value

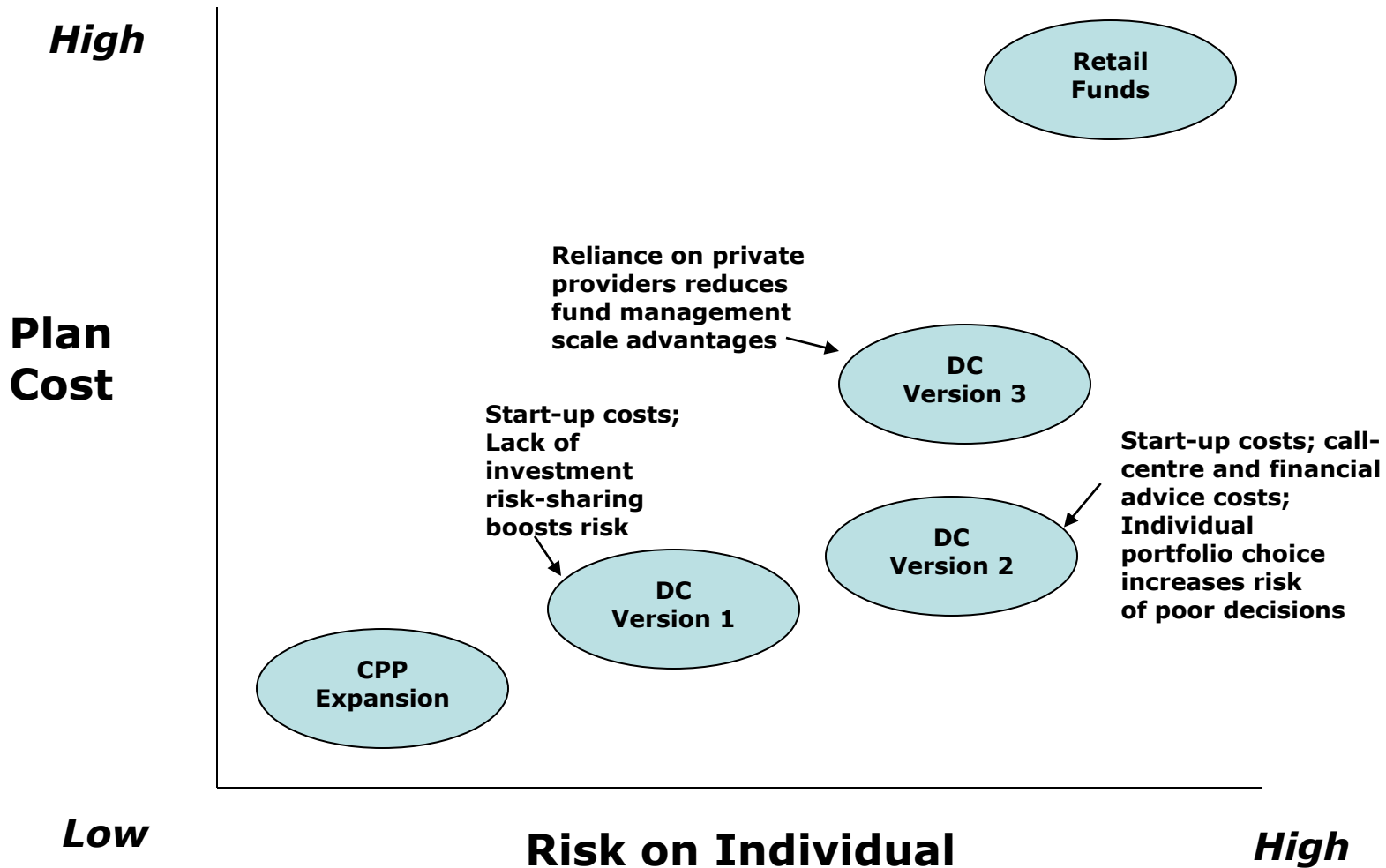
# Introduce Pan-Canadian Defined Contribution Plan to Supplement CPP

- Targets identified and growing problem
- Automatic enrolment with opt-out
- Replacement rates uncertain and unindexed
- 10% contribution rate suggested by Ambachtsheer
- Leaves room for private market “top-up” solutions
- Intergenerationally fair – fully funded
- Benefits mature over 35 years
- High start-up costs
- Multiple ways to structure investment options
- Multiple ways to involve public and private sector administration

# Supplementary DC Plans

<b>Plan</b>	<b>Opt-out</b>	<b>Individual Portfolio Allocation</b>	<b>Annuitization</b>	<b>Fund Management</b>
<b>DC Version 1</b>	Yes	Autopilot	Required	CPPIB Model
<b>DC Version 2</b>	Yes	Individual Choice	Required	CPPIB Model
<b>DC Version 3</b>	Yes	Individual Choice	Individual Choice	Private providers; wholesale regulator

# Comparing Solutions: Cost and Risk



End