Book Review

Fixing the future. How Canada's usually fractious governments worked together to rescue the Canada Pension Plan

Bruce Little

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It is rare to read a book about pensions that sounds such an upbeat note as Bruce Little's work on the Canada Pension Plan (the CPP). As its very title suggests, this book sets out to demonstrate how the federal government of Canada together with the governments of Canada's provinces worked in the 1990s and 'rescued' the CPP.

Given the gloomy news of recent years concerning the sustainability of pension provision in the Western world, this could be regarded as a bold claim, unless the word 'rescue' is taken in the narrowest sense of meaning that the CPP survived as an entity and avoided being scrapped altogether. However, it may seem slightly premature to announce the rescue of any pension arrangement until the point that it has actually paid the final benefit instalment to its last member, and has no further benefit obligations outstanding. The extent to which one can make such a claim in advance must therefore be a matter of debate.

That said, Little's optimism makes for a refreshing read, although it is not always clear whether the success of the reform of the CPP resides more in how the politicians set aside their differences to agree to a wide-ranging reform than in the solutions they eventually came up with. Despite that, the book does contain a very detailed description of the way the CPP's

problems were tackled by Canada's political class, and it is worth perusing for that.

Little worked as a journalist, primarily as an economics writer, and was most recently Special Adviser to the Governor of the Bank of Canada. According to the book's foreword, he was retained by the CPP Investment Board to write this account. It is set out in 18 concise chapters and has a useful appendix containing details of the CPP's benefit and contribution structure. Little has a style of writing that makes his story easy to follow, even if he does at times get slightly too bogged down in the minutiae of the political negotiations.

He describes how the CPP was set up in 1966 in order to provide a supplementary state pension, paid on top of Canada's basic state pension, to those with the requisite contribution record. Essentially it worked as a pay-as-you-go system, although it also retained as a separate fund some of the money received through the joint employer/employee contribution rate. This was part of the original deal between the federal and provincial governments when the CPP was set up: the fund would extend loans to the provincial governments (to be used for various social infrastructure projects) at attractive rates of interest. The interest paid on the loans would flow back into the CPP's coffers. The joint contribution rate was initially pegged

at 3.6 per cent of salary (although it did go up over time).

Little shows that this arrangement proved insufficient to provide the resources the CPP needed once it started to face increased demand for benefits, mainly as a result of higher life expectancy. This problem was exacerbated by the fact that various benefit improvements were introduced over the years (particularly generous disability benefits), which were not matched by any corresponding contribution rate increases.

Concern over this state of affairs began to mount throughout the 1980s and 1990s, so that by 1995 the federal and provincial governments decided to make a determined effort to place the CPP on a securer financial footing.

Little paints in meticulous detail how the negotiations proceeded between the federal and provincial finance ministers. Inevitably, the discussions centred on the right balance between contribution rate increases and benefit reductions. The eventual result that emerged in 1996 was a less generous CPP (providing, for example, less generous disability and death benefits) with a staggered increase in the joint contribution rate – rising from 5.6 per cent in 1996 to 9.9 per cent in 2003.

In addition, and perhaps as the centrepiece of the reform package, a new investment board was set up allowing the CPP to invest its funds on the capital markets to raise returns exceeding the previous payments of interest by the provincial governments on their CPP loans.

Little concludes by saying that ‘... the CPP reforms have worn their first decade well’. Actuarial prognoses of the CPP’s intermediate financial sustainability, as referred to in the book, seem positive.

Overall, this book provides an interesting analysis of pension issues within the context of the public policy debate in Canada in the mid-1990s. It could just as easily be read by students of Canadian politics as by people with an interest in pensions. It gives a bullish assessment of the CPP’s prospects. Only the future will be able to tell what will happen, of course. In the meantime, however, Bruce Little has outlined the political response in Canada to the familiar pension problems in a readable way.

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